BCE

BCE Inc. • Annual Report 1988

Bell

northern telecom

BNR

BCI

BCE MOBILE

TCPL

BCED

Bell

Bell Canada is Canada's largest supplier of telecommunications services, providing advanced voice, data, and image communications to some seven million customers in Quebec, Ontario and the eastern Arctic.

nt northern telecom

Northern Telecom Limited is a leading global supplier of fully digital telecommunications systems. It is owned 52.8 per cent by BCE; its common shares are listed on the New York, Toronto, Montreal, Vancouver, London and Tokyo stock exchanges.

BNR

Bell-Northern Research Ltd. is Canada's largest research and development organization, and is a world leader in the design and development of advanced telecommunications systems. It is owned 70 per cent by Northern Telecom and 30 per cent by Bell Canada.

BCI

Bell Canada International Inc. is BCE's international consulting arm. The company has completed telecommunications management and consulting projects in more than 70 countries over the past two decades.

BCE MOBILE

BCE Mobile Communications Inc. provides cellular telephone, paging, telephone answering, and private and shared radio systems and services. At year-end, BCE owned 80.6 per cent of BCE Mobile, whose shares are traded on the Montreal and Toronto stock exchanges.

TCPL

TransCanada PipeLines Limited owns and operates the sole Canadian pipeline system transporting natural gas from western Canada to eastern Canadian markets. BCE owns 49.1 per cent of TCPL, whose shares are traded on the Montreal, Toronto, Winnipeg, Alberta, Vancouver and New York stock exchanges.

BCED

BCE Development Corporation and its predecessor companies have been active since 1964 in a wide variety of real estate projects across North America. At year-end, it was 67 per cent owned by BCE. Its shares are traded on the stock exchanges of Montreal, Toronto, Alberta, Vancouver and London, England.

The annual reports to shareholders of the public companies may be obtained directly from those companies, or by request to the Vice-President and Corporate Secretary of BCE Inc.

BCE* is a management holding corporation whose subsidiaries and associated companies are major providers of telecommunications services; they are leaders in the manufacture and supply of telecommunications equipment, and in natural gas transportation and natural resource operations.

BCE, with its other subsidiaries and associated companies, also is a major provider of international telecommunications consulting services; and is engaged in real estate development, printing and publishing services and other fields.

BCE has the largest number of registered shareholders of any Canadian corporation and its common shares are listed on stock exchanges in Canada, the United States, Japan and Europe.

1989 Annual Meeting
The annual meeting of BCE shareholders will take place at 10 a.m., Tuesday May 2, 1989, at the Vancouver Trade and Convention Centre, Canada Place, Vancouver, British Columbia.

BCE Inc.
Executive Offices
2000 McGill College Avenue
Suite 2100
Montreal, Quebec H3A 3H7

Cover: litho Canada

Table of Contents

Trademarks

The terms ALEX, DIVA, LANSCAPE, iNet 2000 and Envoy 100 are trademarks of Bell Canada.

The terms DMS, SuperNode, Meridian, SL, SL-100, OPEN World, DPN and Norstar are trademarks of Northern Telecom Limited.

The terms Message Alert and InfoCell are trademarks of Bell Cellular Inc.

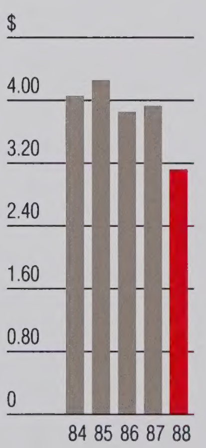
The term Transcad is a trademark of National Mobile Radio Communications Inc.

The term Yellow Pages is a trademark of Tele-Direct (Publications) Inc.

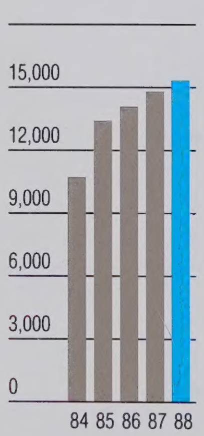
Financial Highlights

	1988	1987	1986
		(dollars in millions, except per share amounts)	
Earnings per common share	**$ 3.09**	$ 3.91	$ 3.83
Total revenues	**15,253**	14,730	14,010
Net income	**887**	1,087	1,024
Net income applicable to common shares	**882**	1,054	986
Return on common equity	**9.5%**	12.3%	12.5%
Total assets	**28,069**	26,204	23,710
Gross capital expenditures	**3,559**	3,309	2,770

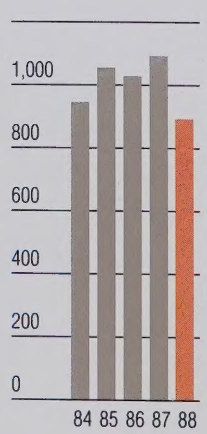
Earnings per common share



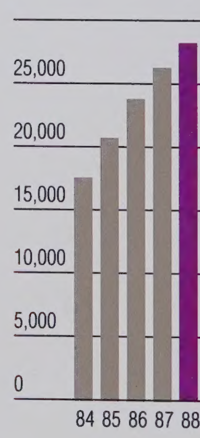
Total revenues (millions of dollars)



Net income (millions of dollars)



Total assets (millions of dollars)



To All Our Shareholders

Creating value for shareholders

BCE management took vigorous steps during 1988 to reinforce the performance of BCE's asset base and to lay the groundwork to increase value for its shareholders. BCE itself does not directly provide any service or manufacture any product. Rather, our business is the management of assets and, in doing so, we must look at both short-term and long-term considerations.

Some BCE companies were sold in 1988, while new investments were made in others. Our core business is telecommunications, and we made some important adjustments and acquisitions in this area.

Bell Canada, experiencing major growth in demand for services, made record capital expenditures, reaching $2.2 billion in 1988. BCE Mobile Communications Inc., in its first full year of operation, recorded particularly solid results. We acquired another telecommunications company, Northwestel Inc., while our subsidiary, Newfoundland Telephone Company Limited, acquired Terra Nova Tel.

We also realigned our assets in printing, packaging and publishing, and sold two technology companies. While all these events are newsworthy in themselves, they are also part of a larger strategy of asset management.

1988 earnings down

Earnings for 1988 were lower than we had originally anticipated and did not reach 1987 levels. Net income applicable to common shares for 1988 was $882 million, down 16 per cent, compared with $1,054 million in 1987. Revenues were $15,253 million, up four per cent, compared with $14,730 million in 1987.

Earnings per common share were $3.09, compared with $3.91 in 1987. The average number of BCE common shares in 1988 rose by 5.9 per cent to 285.4 million shares. The increase in the number of common shares was due mainly to conversion of the $2.70 preferred shares in March.

Provisions affect earnings

The principal reason for the lower earnings was provisions made by Northern Telecom Limited, TransCanada PipeLines Limited and by BCE itself. Northern Telecom announced during the fourth quarter a provision of $242 million (U.S. $200 million) in view of a major corporate reorganization to improve its competitiveness in world markets. BCE's share of this was $128 million.

TCPL took an investment and asset provision of $72 million; it also incurred a loss of $53 million in connection with the sale of U.S. oil and gas interests. BCE's share of the loss and the provision amounted to $61 million. In addition, BCE itself made a $97 million provision, related to the restructuring and rationalization of international operations, printing and publishing businesses. The provisions, after giving effect to taxes and minority interest, reduced 1988 earnings by $190 million and earnings per share from $3.76 to $3.09.

The proportional contribution to consolidated income of individual BCE companies was somewhat skewed this year, largely due to the various provisions. Contributions from the telecommunications companies were proportionally higher than in the past, underlining their strong performance. At Bell Canada, earnings grew despite cuts in long distance rates which the CRTC estimated would reduce operating revenues by $125 million.

Growth foreseen

We expect the regulated telecommunications companies will continue to provide a steady source of earnings. At the same time, however, it is our goal to increase the proportion of earnings contributed by the non-regulated business sector, i.e., Northern

Telecom, BCE Development, BCE Mobile and the other investments that BCE has made and will continue to make. TCPL, which is regulated, also is expected to increase its proportional contribution.

The non-regulated companies offer better opportunities for greater growth, while the telecommunications operating companies are more likely to provide stable but growing income. This balance of business sectors is a source of strength for BCE.

We are aiming for a steady annual improvement in earnings of five per cent or more. We think this is a reasonable goal given the weight of regulated companies in our asset base. To attain this, it is not sufficient to sit back and watch the various BCE companies go about their business. At the holding company level, we must manage aggressively the assets at our disposal in order to bring about earnings growth and an increase in share value.

Asset management — BCE Mobile

We will highlight three transactions which indicate the sort of asset management BCE will continue to pursue. The first is the formation of BCE Mobile, which has just completed its first year of operations. The company is described later in this report, so we will simply discuss why we forged this new entity out of three operating companies.

It is clear that mobile communications, particularly cellular telephones, have opened up a vast new market whose full potential may still be underestimated. Demand has far outstripped initial predictions. However, the capital which must be invested to develop both the technology and the markets can be a drain on investors. In addition, astute, experienced management is essential in order to keep development on track, on budget and fully competitive.

BCE Mobile was created by combining the resources of two successful independent mobile communications companies with those of our own cellular telephone company, Bell Cellular. In this way, BCE Mobile benefits from the management skills, entrepreneurial spirit, market penetration and technology contributed by the smaller component companies, while taking advantage of synergies available to a larger company in marketing, product development and financing.

The market appeal of the new company was demonstrated in May, when a $54 million issue of three million shares was sold to the public. At current prices, BCE Mobile's market valuation is more than $1.5 billion.

The funds gained from the sale of shares will permit BCE Mobile to undertake capital expenditures without calling on further investment capital from BCE. In addition, the public listing of BCE Mobile, with the market value this creates, helps to reinforce the value of BCE's own shares. We fully expect that BCE Mobile will be a significant income producer in coming years.

Kinburn transaction

Another example of our asset management approach was the transaction we entered into with Kinburn Corporation of Ottawa. This diversified holding company has interests in Paperboard Industries Corporation; in SHL Systemhouse, which is the largest Canadian information systems company; and in several smaller high technology companies.

We sold to Kinburn certain companies which, although they had potential, could best be managed through Kinburn, rather than directly by BCE. These businesses are Rolph-Clark-Stone Packaging Corporation (RCSP), Bell Technical Services (BTS) and Computer Innovations Distribution Inc. (CIDI). The advantage of this approach

Regular information meetings, such as this one in the City of London, help to sustain interest in BCE within the international financial community.

A. Jean de Grandpré and J.V. Raymond Cyr

became evident quickly: RCSP has performed well after rationalization into Paperboard Industries, and CIDI has made significant progress since it was acquired by SHL Systemhouse.

BCE has invested $319 million in notes of Kinburn and obtained the option to acquire 49 per cent of Kinburn after five years. The structure of the Kinburn transaction enabled BCE to enter an investment with high growth potential in the technology sector, without an immediate adverse impact on earnings.

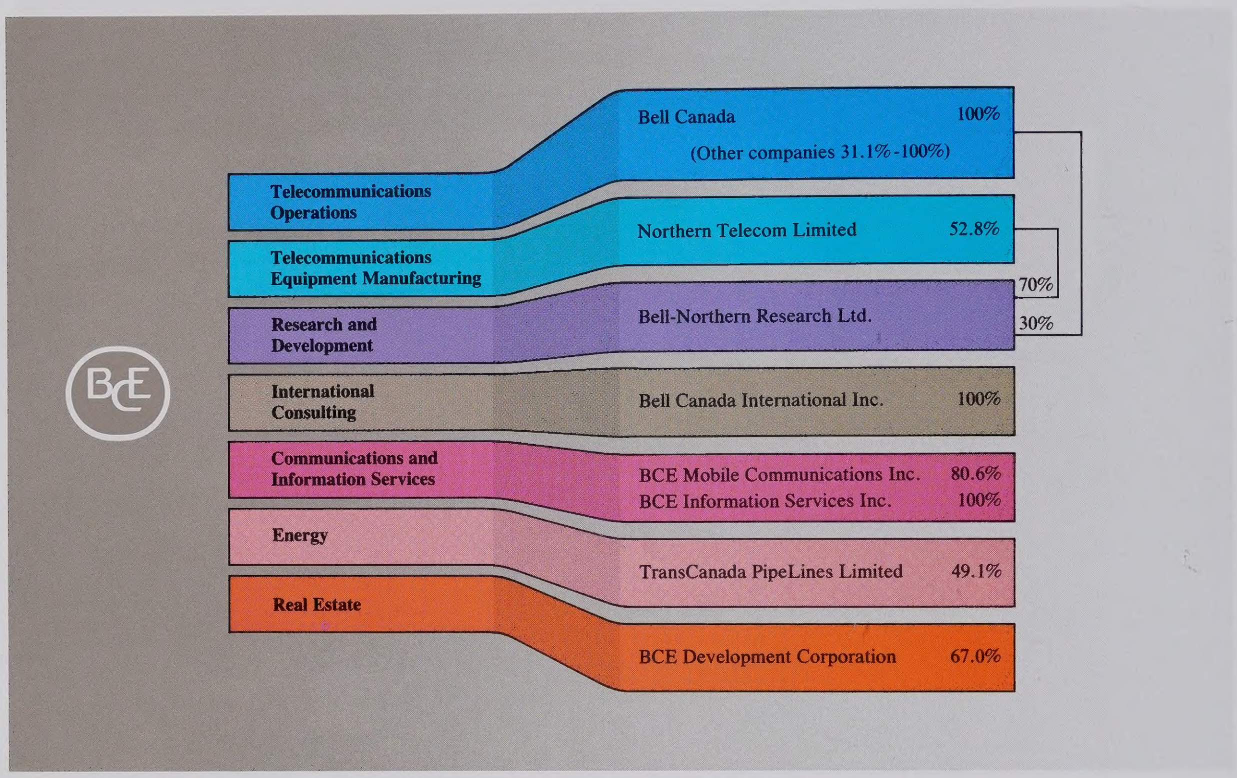
Quebecor transaction

Our sale of BCE PubliTech to Quebecor inc. is, in several respects, similar to the Kinburn transaction: we sold some assets in return for an interest in a larger entity with greater potential for growth and a more diversified asset base. Quebecor is a major force in Canadian publishing, printing and distribution, and also has an interest in Donohue Inc., a large forest-products company. We expect that the improved performance of these printing assets will add to the profitability of Quebecor. This will be to the benefit of BCE shareholders because, as part of that transaction, we have taken a 21 per cent interest in Quebecor.

We had built up BCE PubliTech into a major Canadian printer. However, an objective analysis of the company's prospects indicated that parts of BCE PubliTech were too small in an increasingly competitive market. Accordingly, we looked for alternatives that would improve prospects for longer-term profits and growth.

Attitude towards control

Some readers may question whether our willingness to accept a non-controlling position signals a change in policy: in the past, BCE has generally — but not always — sought a strong voting position in companies we invest in. Recent transactions do, in



effect, signal a more flexible attitude towards control in situations where we have strong confidence both in management and in the fundamental soundness of the business prospects.

A past example of a minority position was our 1987 investment in Memotec Data Inc., the parent company of Teleglobe Canada, which is Canada's sole provider of overseas communications. Although federal legislation, in effect, limits our participation in Teleglobe to a one-third interest, this portion is sufficient both to create solid earnings potential and to add to the underlying share value for BCE's shareholders.

Positive effects from restructuring

1989 will provide further opportunities to build value for shareholders. Notably, Northern Telecom is undertaking a major restructuring which will improve its competitive position as markets for telecommunications equipment become truly global. While this has had a dampening effect on our 1988 earnings, the negative consequences of not restructuring would have been far worse — and longer lasting. Northern Telecom is a formidable power in the world telecommunications market and in the next few years should increase its contribution to BCE earnings.

Another of our major holdings also has announced a restructuring. TCPL has proposed consolidating all its oil and gas interests in Encor Energy Corporation Inc. which would become a publicly traded company. TCPL would become a separate pipeline company. Shares of Encor would be distributed to all TCPL common shareholders, including BCE. In addition, BCE would purchase $226.5 million of preferred shares convertible into 33 per cent of Encor, as of the effective date of the restructuring.

From the perspective of shareholders, this re-ordering of the energy business should have fairly immediate effects. Of particular importance, the market will be able to better value the two companies, particularly in view of the recent strong performance and considerable potential of the pipeline business. We look to an improving contribution from TCPL in future years.

Consistent dividend policy

Shareholders are, of course, interested in BCE's dividend policy. It has been our practice since 1973 to raise the dividend every year, and we have seen no reason to break with that custom. It is a signal to investors of our confidence in BCE's future earnings power.

We also expect that, through continuing gains in annual earnings, it will be possible, over time, to adjust the payout ratio while still maintaining our dividend record. We believe that, to promote internal growth and the value of BCE shares, the proportion of earnings invested in the corporation should be permitted to grow.

We won't make predictions for the coming year, except to assure our shareholders that one of our main objectives is to improve the value of their investment. We are likely to continue to make further adjustments to the BCE asset base, as conditions warrant. Globalization of markets, deregulation, privatization and the many other variables of world economic development will have a profound impact on our decisions, and upon the future course of BCE. We are prepared to meet these challenges, and believe our shareholders will benefit.

Management renewal

Inevitably, people who have served BCE's shareholders retire or move on to other responsibilities. While we very much regret losing valuable counsellors, we recognize that constant renewal is essential to success.

This year, two long-serving directors are retiring from the board. They are Helen L. Margison, who has served since April 1978; and Lucien G. Rolland, a director since July 1965. These two directors have served on several different committees and their business experience and judgement have proved invaluable to the corporation.

Four new directors joined the board at last year's annual meeting. They are Peter Allen, chairman, president and CEO of LAC Minerals Ltd.; Laurent Beaudoin, chairman and CEO of Bombardier Inc.; John Brant, president and CEO of Emco Limited; and Richard Sharpe, chairman and former CEO of Sears Canada Inc. All bring to BCE a strong combination of business acumen, experience, judgement, leadership and a strong commitment to the community.

In May, the responsibilities of chief executive officer passed to J.V. Raymond Cyr. Also within our management group, J.E. (Jack) Sinclair, who was executive vice-president, corporate, moved to Bell Canada to assume overall direction for the Ontario Region as executive vice-president.

Support from employees

The many thousands of employees in the BCE family of companies once again demonstrated their dedication and professionalism in support of various corporate goals and activities. Their efforts are the basis for the success we will achieve in the years to come, and we thank them for their contribution.

J.V.R. Cyr

A. Jean de Grandpré
Chairman of the Board

J.V. Raymond Cyr
President and Chief Executive Officer

February 22, 1989

Telecommunications Operations

Telecommunications remains BCE's core business. The largest of BCE's telecommunications companies is Bell Canada, which is also Canada's largest supplier of telecommunications services. Bell Canada and two smaller, provincially regulated companies serve some seven million customers in Ontario and Quebec, the most populous provinces, and the eastern Arctic.

The other six telecommunications companies in which BCE has interests serve the populations of Atlantic Canada, the western part of the Northwest Territories, the Yukon, and northern British Columbia. All told, BCE telecommunications companies provide service over two-thirds of the Canadian landmass, to some 70 per cent of the Canadian population.

The quality of telecommunications service provided by these companies is among the best in the world. All BCE companies provide a range of advanced residential and business services and products; and are moving to expand and upgrade services, notably by installing digital equipment and fiber optic cables. Advances in productivity brought about by the new technology, as well as by improved management techniques, are contributing to strong financial performance and reasonable prices for subscribers.

Telecommunications companies acquired

Two companies were purchased from the Canadian National Railway Company (CN) in late 1988. Northwestel Inc. provides telecommunications service to a population of 75,000, in an area of 2.35 million square kilometres in the Yukon, the western portion of the Northwest Territories and northern British Columbia: this is about one-fifth of the Canadian landmass. As Bell Canada already provides service in the eastern portion of the Northwest Territories, the purchase of Northwestel was a logical addition to BCE's business. BCE paid $147 million for common shares of the company.

Newfoundland Telephone Company Limited, a subsidiary of NewTel Enterprises Limited, of which BCE owns 55.5 per cent, purchased Terra Nova Telecommunications Inc. from CN for a total of $170 million. Terra Nova's operations are being merged with those of Newfoundland Telephone. In effect, all of Newfoundland and Labrador are now served by a single integrated telephone system.

Other telecommunications companies

Besides NewTel and Northwestel, BCE holds direct and indirect interests in five provincial telecommunications companies. They are Bruncor Inc. (31.2 per cent), the parent of The New Brunswick Telephone Company, Limited; Maritime Telegraph and Telephone Company, Limited (33.1 per cent), in Nova Scotia and its subsidiary, The Island Telephone Company Limited, serving Prince Edward Island; Télébec Ltée (100 per cent), whose territory includes a vast area in northwestern Quebec; and Northern Telephone Limited (99.8 per cent), serving northeastern Ontario.

Together, these companies contributed $50 million to BCE's earnings in 1988, an increase of nine per cent from 1987. Their improved performance is due both to steady growth in demand, reflecting a generally prosperous economy, and to efficient management.

Despite the wide variety of customers served, ranging from metropolitan businesses to isolated Arctic outposts, these companies provide a high level of basic service, as well as many sophisticated telecommunications features and products. All are engaged in construction programs to expand and upgrade the telecommunications network, notably by increasing the number of digital switches.

Northwestel, headquartered in Whitehorse, Yukon, serves a population of 75,000 in an area comprising one-fifth of the Canadian landmass.

The ALEX videotex terminal, now on trial in Montreal, plugs into an ordinary telephone jack and provides access to a variety of information services.

Bell Canada

Bell Canada showed strong growth in 1988, with increases in demand for telecommunications services in both residential and business markets. At year-end, Bell Canada had 8.1 million lines in service and 55,110 employees.

Bell Canada contributed $759 million to BCE's consolidated net income ($2.66 per share), compared with $703 million ($2.61 per share) in 1987. Bell Canada had operating revenues of $6,624 million, compared with $6,378 million in 1987, while assets at year-end were $14,512 million.

For 1988, the federal regulator, the Canadian Radio-television and Telecommunications Commission (CRTC) set a permissible rate of return on common equity for Bell Canada of between 12.25 and 13.25 per cent. The actual year-end result was a return on average common equity of 12.9 per cent, while the return for regulatory purposes was calculated at 13 per cent.

Approximately 88 per cent of Bell Canada's 1988 operating revenues was derived from provision of local and long distance telephone service. Local service revenues increased by 5.7 per cent to $2,512 million in 1988, mainly as a result of the increase in network access services and in revenues generated from service options. Network access lines increased to 8.1 million, from 7.8 million in 1987.

The number of long distance messages increased by 16 per cent, to 1.4 billion. However, revenues from this service increased only slightly to $3,290 million, because Bell Canada reduced long distance rates significantly during the year to comply with directives from the CRTC.

In recent years, Bell Canada has seen the number of lines in service grow at one of the fastest rates in North America. This is due both to the growth in population of Ontario and Quebec and to the rapidly expanding economy. In addition, as information technology advances, customers require more sophisticated computer and information products for both home and business.

As a result, Bell Canada has invested heavily in improvements and additions to its telecommunications network. Construction expenditures in 1988 were a record $2.2 billion and will probably reach $2.3 billion in 1989. Some 74 per cent of the 1988 capital program was to meet needs for basic and enhanced services, while the rest went to network modernization, administrative support and replacement of used equipment.

Approximately two-thirds of the cash requirement for 1988 capital expenditures was met internally, while the rest was raised from BCE and in world financial markets. To achieve the best terms in these markets, Bell Canada must demonstrate solid financial performance.

Advanced products and services

At the end of the year, Bell Canada launched a trial in the Montreal area of its new videotex information service, called ALEX, after Alexander Graham Bell. Using a video terminal which plugs into an ordinary telephone jack or a personal computer equipped with ALEX software, customers have access to a variety of information services offered by financial institutions, retailers, community organizations and others. Introduction of ALEX to the Toronto area is planned following the Montreal trial.

For the business market, Bell Canada emphasized working as a partner with customers to develop office systems adapted to specific needs. The Integrated Office Systems (IOS) line of products for small and medium business and for corporate departments is designed to respond to this demand. Additions to the IOS line included Northern Telecom's Meridian Norstar, a telephone system for small businesses which

Bell Canada Highlights

dollar figures in millions	**1988**	1987
Operating revenues	**$ 6,624**	$ 6,378
Net income	**$ 793**	$ 731
Return on average common equity	**12.9%**	13.2%
Total assets	**$14,512**	$13,508
Gross capital expenditures	**$ 2,200**	$ 1,991
Number of employees	**55,110**	53,735
Network access services (thousands)	**8,092**	7,761
Long distance messages (millions)	**1,382**	1,192

offers many advanced features. DIVA and LANSCAPE are systems which permit customers to link often non-compatible equipment into single networks; these were expanded and improved in 1988.

Intelligent communications services such as iNet 2000, which links customers to a range of data bases, and Envoy 100, an electronic messaging service, grew substantially over the year. iNet usage increased 33 per cent.

Bell Canada is also engaged in trials of the Integrated Services Digital Network (ISDN) technology, based on international standards which will permit voice, data, image and text to be transmitted over a single telephone hook-up. In 1988, tests were conducted with three Government of Canada departments and with Telecom Canada; in 1989, Bell Canada will expand trials to Montreal, Québec City and Toronto.

Employee relations

Two three-year collective agreements, covering approximately 19,500 employees, were signed with the Communications and Electrical Workers of Canada (CWC). The two groups concerned are craft and services employees, and operator and dining services employees. The agreements followed a 17-week strike, the longest in Bell Canada's history, during which management employees maintained telephone services. The strike did not have a material effect on net income, but an installation, repair and service backlog built up. At year-end, quality of service indicators were beginning to regain pre-strike levels.

BCE has some 320,000 shareholders who look for security, a good yield and growth in value. BCE is the most widely held company in Canada and has paid dividends since 1881. Dividends have increased every year since 1973.

Telecommunications Operations — BCE Investments

- *Northwestel Inc.*
- *Bell Canada*
- *Northern Telephone Limited*
- *Télébec Ltée*
- *The New Brunswick Telephone Company, Limited*
- *Maritime Telegraph and Telephone Company, Limited*
- *The Island Telephone Company Limited*
- *Newfoundland Telephone Company Limited*

Northern Telecom Limited

(Northern Telecom reports its results in U.S. dollars, and the data in this section also are expressed in U.S. dollars. However, the consolidated data in the Financial Review and the Financial Statements sections of this report are expressed in Canadian dollars.)

Telecommunications Equipment Manufacturing

Northern Telecom has one of the broadest product portfolios of any manufacturer in the industry, ranging from ordinary residential telephone sets to central office switches serving whole cities. The major part of Northern Telecom's business is digital switching equipment: the DMS family of central office switches used by public telephone companies and others to route local, long distance and international calls; and the Meridian line of private branch exchanges (PBXs) for business and government telephone systems. Northern Telecom is a leading global supplier of fully digital telecommunications systems. Worldwide, the company employed 49,000 people in 1988.

Engineers and technicians from Jiangxi Province, China, are studying at the Northern Telecom training centre in Bramalea, Ontario.

Northern Telecom reported 1988 earnings of U.S. $166 million applicable to common shares, down from U.S. $329 million in 1987. Revenues, however, increased by 10 per cent to U.S. $5.41 billion from U.S. $4.91 billion in 1987. Fourth quarter revenues were particularly strong, up 16.5 per cent.

A major reason for the decrease in earnings, despite record revenues, was the decision to establish a provision of U.S. $200 million in the fourth quarter, in view of a major corporate restructuring. The goal of the restructuring is to reinforce Northern Telecom's global competitiveness. It will include streamlining the marketing and sales functions, closure and consolidation of certain manufacturing facilities in both Canada and the United States, and simplification of operations throughout the corporation.

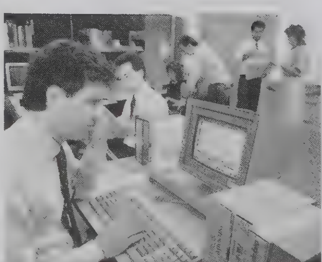
BCE owns nearly 53 per cent of Northern Telecom, which this year contributed Cdn. $106 million to BCE's consolidated net income ($0.37 a share), compared with Cdn. $227 million ($0.84 a share) in 1987. The provision taken by Northern Telecom resulted in a reduction of Cdn. $86 million, after tax and minority interest, in its contribution to BCE's consolidated 1988 income.

Northern Telecom has stressed that it will continue its major investments in research and development which, in recent years, have averaged over 11 per cent of total revenues. In 1988, investment in R&D totalled U.S. $710.6 million, or 13.1 per cent of revenues.

The telecommunications business has become increasingly competitive. Globalization of markets is increasing as countries move to a less regulated telecommunications industry. Northern Telecom, the second largest manufacturer in North America, has made strides in expanding sales overseas, particularly to Europe and the Far East. In 1988, 62 per cent of sales originated in the United States, 34 per cent in Canada and four per cent overseas. The proportion of sales outside North America should rise significantly by the mid-1990s.

Comparative advantage in this new global market depends not only on superior R&D, but also on speed in making management decisions, finding unique applications for research advances and delivering them to customers ahead of competitors. Northern Telecom is one of the lowest-cost manufacturers in the industry and is now manufacturing a number of products in just one-half the time required only two or three years ago.

Northern Telecom produces advanced integrated office systems.



Close collaboration with customers is essential to ensure that products meet specific needs of the market. Customers want systems that can be upgraded as new technology comes on line. Northern Telecom is committed to this "evergreen principle": its new products do not supersede an existing installation, but enhance it.

The SuperNode is a successful application of this principle. Response has exceeded expectations: 300 SuperNodes were delivered in 1988. Customers include Sasktel and NBTel, as well as NYNEX, which installed a DMS SuperNode in New York City to serve the Wall Street financial district.

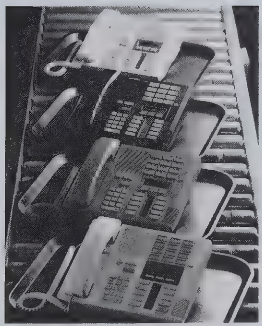
In addition, business customers want to link components, made by several different manufacturers, into "intelligent networks" which satisfy their specific needs. For this reason, the concept of OPEN World (Open Protocol Enhanced Networks), or universal compatibility, is at the core of Northern Telecom's strategic vision.

Key elements in the intelligent networks are Common Channel Signaling Number Seven (CCS7) and Integrated Services Digital Network (ISDN). CCS7 is a powerful signaling overlay on telecommunications systems, linking various switches, nodes and data bases in a truly integrated network. For example, CCS7 permits telecommunications operating companies across the continent to link their long distance services, in order to provide toll-free 800 numbers, telephone credit cards and charge calling.

ISDN on the commercial market

Integrated Services Digital Network (ISDN) forms the basis for the latest advances in networking. This is a set of technical standards worked out by the telecommunications industry internationally. The standards will permit worldwide interconnection of systems, so that voice, data and images can be communicated anywhere on earth with maximum efficiency.

ISDN found several commercial applications in 1988. Eastman Kodak Company of Rochester, New York, acquired an ISDN Primary Rate Access (PRA), which links central office switches with PBXs or mainframe computers, increasing both the features and the capacity of the existing Meridian SL-100 telephone network. Northeast Utilities, which serves Connecticut and western Massachusetts, used the PRA to link two Meridian SL-1XN business communications systems located 10 miles apart. Illinois Bell purchased 1,750 ISDN lines for commercial use in various parts of that state.



Meridian Norstar telephones are rapidly gaining widespread popularity.

In a prototype project in Florida, Northern Telecom and Southern Bell are applying ISDN technology, using fiber optic transmission, to the residential community of Heathrow, near Orlando. This will permit transmission over telephone lines of television and other video services which Southern Bell will deliver in mid-1990.

Meridian products

Northern Telecom's Meridian line of business communications systems is a world leader, with products installed in more than 60 countries. The Meridian SL-1 is the most widely used digital PBX in the world. Plants have been set up to manufacture Meridian products in Canada, France, the United States, Australia and the People's Republic of China.

Meridian systems have found customers of all sizes and requirements. The U.S. Air Force awarded a U.S. $147 million contract for Meridian equipment to be installed in 54 locations in the U.S. and overseas. This is the largest contract ever awarded by the U.S. government for digital telecommunications equipment. In Hong Kong and Singapore, Meridian systems hold 50 per cent of the market.

Overseas markets

Major gains were recorded in penetrating European and Far Eastern markets, where opportunities are widening as national telecommunications authorities upgrade installations and privatize telecommunications operations.

A technician programs an industrial robot at Northern Telecom's plant in Calgary, Alberta. The plant can produce a Meridian Norstar telephone in only nine minutes. Developed by BNR, the Norstar is a popular addition to Bell Canada's product line.

In the United Kingdom, Northern Telecom owns a 27.5 per cent interest in STC PLC, one of Europe's major telecommunications manufacturers. STC has won a U.S. $175 million contract from British Telecom as a supplier for extension of a national fiber optic business communication network called the Flexible Access System (FAS).

Northern Telecom also is the world's leading supplier of fully digital data packet switching systems, which permit private and public telephone networks to handle large quantities of data at high speeds. Major contracts to provide DPN-100 equipment were signed in Sweden, Norway, Turkey and Australia.

In the Far East and Pacific, contracts were signed during 1988 in Australia and the People's Republic of China (PRC), and deliveries of DMS-10 equipment were made to Japan. Telecom Australia has purchased a DMS-300 digital switch to connect its national long-distance network with other international locations.

Four cities in Jiangxi province, PRC, are installing entire switching and transmission networks using Northern Telecom equipment. As part of the contract, Chinese engineers and technicians are receiving advanced training in Bramalea, Ontario. During 1988, 14 DMS central office switches were installed in China, and Northern Telecom has orders for another 200,000 lines of DMS switches.

In another important venture, Northern Telecom and China Tong Guang Communications and Electronics Company announced a U.S. $13 million joint venture to manufacture, market and distribute Meridian SL-1 equipment. To date, more than 96,000 Meridian SL-1 lines have been sold in China.

Northern Telecom is the official telecommunications equipment supplier for the XI Asian Games, to be held in Beijing in October 1990, and equipment installed will continue to serve the city following the games.

Nippon Telegraph and Telephone Corporation (NTT) of Japan cut over the first DMS-10 supplied under a U.S. $250 million contract signed in 1986. This is the first non-Japanese-made central office switch in the Japanese public telephone network. Many more Northern Telecom switches will be delivered from 1989 through 1993.

Research and Development

Bell-Northern Research Ltd.

The telecommunications leadership of BCE companies is based on superior application of advanced technology to product development. This requires an unremitting commitment to research and development.

The need to excel in scientific research has never been greater, as competition intensifies in global markets. Not only must researchers develop new technologies, they must apply them to products which respond to specific customer requirements and which are sufficiently advanced to anticipate future needs. It is essential as well to bring products to the marketplace swiftly. R&D also must be highly productive.

Bell-Northern Research is Canada's largest R&D organization and is the principal element of BCE's R&D activity. BNR employs a staff of more than 6,700 working at nine locations in Canada, the United States and the United Kingdom. BNR is owned 70 per cent by Northern Telecom and 30 per cent by Bell Canada.

In 1988, the consolidated expenses for R&D by BCE companies approached $1 billion, compared with $925 million in 1987. Of this total, BNR performed R&D worth $633 million in 1988, compared with $562 million in 1987.

Efficiency in creating designs increased in 1988 under a new program to streamline all aspects of product development. To maximize effectiveness, resources are

concentrated on those areas of R&D having the greatest impact on market development for BNR's corporate parents, Northern Telecom and Bell Canada.

Results of these major investments in R&D were seen in the past year when Northern Telecom announced products that extended its advance over competitors. The DMS SuperNode greatly increases the capabilities and intelligence of central office switches; the Meridian Norstar vastly improves voice and data communication for small businesses; and the Meridian Data Networking System (MDNS) offers major advances in linking equipment and networks from several vendors. The MDNS also makes management of data communications networks much easier.

Research facilities will expand over the next few years, with increases in both laboratory space and research staff. Construction is now underway on an advanced technology laboratory at Nepean, Ontario, the world headquarters of BNR. The new facilities will accelerate the development of high-speed microchips, notably gallium arsenide technology, and related semiconductor compounds. The company has leased another 200 acres adjacent to its present facilities to provide for anticipated growth to the year 2000, when the complex could potentially employ 8,000 R&D employees, or double the number now employed by BNR in the Ottawa area.

In Kanata, Ontario, BNR opened a new building to house Canada's largest private telecommunications design verification facility. The laboratory creates prototypes of products in the shortest possible time and verifies design so products meet or surpass Northern Telecom's stringent quality and reliability requirements, as well as government regulatory standards.

At Research Triangle Park, North Carolina, BNR inaugurated a U.S. $40 million laboratory to develop applications for DMS central office switches. In Atlanta, Georgia, BNR established its fifth laboratory in the United States. Scientists will develop products based on optoelectronics technologies, which will be applied to fiber optic telecommunications networks.

This semiconductor wafer, made of gallium arsenide, contains thousands of advanced optoelectronic transmitters.

Northern Telecom is making a major investment in advanced semiconductor technology. This work is conducted through Northern Telecom Electronics Limited, a wholly owned subsidiary. A $105 million Advanced Semiconductor Technology Center was opened at Nepean to manufacture highly sophisticated microchips used in many products, including telephone sets, voice/data terminals and telephone switching and transmission systems.

In 1988, BNR scientists created the world's most advanced optoelectronic transmitter, which is not much larger than a grain of sand. It converts digital electronic signals into light pulses at speeds exceeding two billion bits per second. The new microchip combines laser technology and microelectronics, which will lead ultimately to cost-effective mass production of fiber optic communications networks.

BCE Ventures Corporation

Venture capital investment offers the opportunity to participate in the development of emerging companies with growth potential. BCE Ventures Corporation, organized in June, will invest in Canada and, through a wholly owned subsidiary, BCE Venture Capital Inc., in the United States. The new company is owned 72 per cent by BCE, 25 per cent by Northern Telecom Limited and three per cent by Bell Canada Technologies Management Corporation, a subsidiary of Bell Canada.

BCE Ventures Corporation has also assumed management of an existing Northern Telecom venture capital portfolio with assets of approximately $45 million.

International Consulting

The Kingdom of Morocco has awarded BCI a five-year contract to extend and modernize its telecommunications system.

Bell Canada International Inc.

The worldwide market for telecommunications consulting provides an opportunity to market the expertise of BCE telecommunications companies, and to support the products and services of Northern Telecom. Bell Canada International has completed hundreds of projects in more than 70 countries over the past two decades. During 1988, BCI worked in 33 countries on six continents.

BCI is best known in the international consulting field for its assistance to the Kingdom of Saudi Arabia in modernizing its telecommunications system. The relationship with the Kingdom began in 1975, and saw the telecommunications system develop into one of the world's most modern. Our two five-year operation and management contracts with the Kingdom were the largest in the history of telecommunications, totalling $2.7 billion. A one-year extension contract ended on December 13, 1988, bringing to a close the major contractual relationship. Three smaller contracts are still in force in Saudi Arabia.

Over the years, BCI has generated significant profits for BCE, but its role in promoting Canadian expertise and technology and in expanding the technical competence of BCE employees, is also of great importance. As liberalization of state enterprises gets underway in many countries, and as governments become more open in their procurement policies, opportunities will grow for BCI's telecommunications expertise. These consulting contracts also provide the opportunity for marketing the products of other BCE companies, notably Northern Telecom.

The international market, though highly competitive, is expanding. By the year 2000, the global market for telecommunications products and services is expected to reach $300 billion, about three times the present level. An efficient, dependable telecommunications system is vital to economic progress, and many countries are seeking to upgrade their infrastructures.

BCI achieved a breakthrough in the North African market during the year. It was awarded a $212 million, five-year contract to supply 300,000 lines of digital telephone switching in the Kingdom of Morocco. The digital switches, the most advanced in the world, will be manufactured by Northern Telecom. The contract also calls for both project management and for training Moroccan telephone company employees; about 60 BCI managers will be assigned to Rabat and Casablanca.

BCI has worked under contract with the government of Malaysia since 1985 to modernize and computerize administrative functions of the national telecommunications service. A computerized customer services system trial proved successful, and BCI has received a $12 million contract to expand this system. Two large mainframe computers will link 2,000 terminals throughout Malaysia, producing substantial improvements in order processing and subscriber billing.

BCI has worked with the government of Malaysia since 1985 to modernize and computerize administrative functions of the national telecommunications service.

In Venezuela, BCI has started work on the third phase of a contract with the national telecommunications authority to design an automated services administration system for metropolitan Caracas, and to plan an automated repair service system for the entire country.

United States

BCI Incorporated, which serves the U.S. market from offices in Reston, Virginia and San Francisco, California, completed its tenth successive year of profitable operation.

Design and optimization of private voice and data networks, a sector BCI entered in 1987, showed healthy growth. The company completed private network studies for a number of banks, utilities and private corporations.

BCI conducted a successful field trial of Bell Canada's "Device for Integrated Surveillance and Control" for a major U.S. Bell operating company. The device permits centralized maintenance and control of central office switches. BCI Incorporated continues to provide U.S. Bell operating companies, interexchange carriers and large private network users with support and training on Northern Telecom's DMS and SL-100 switches.

BCE Mobile Communications Inc.

BCE Mobile was created by BCE a little over a year ago to exploit promising opportunities in the rapidly evolving field of personal mobile communications. BCE Mobile's subsidiary companies market cellular telecommunications, paging and telephone answering services, private and shared mobile radio voice and data communications, and air-to-ground telephone services.

The public's enthusiastic response to the availability of such services indicates a profitable future for BCE Mobile. Revenue growth in the past year has been strong, at 40 per cent. Typically, however, profits in high technology companies are relatively modest during the start-up phase because initial capital and operating expenditures to build the technology and develop the market must precede the development of revenues.

Because BCE Mobile was formed only in December 1987, comparable results for 1988 over 1987 are on a pro forma basis, as if the subsidiaries had been acquired prior to 1987. On this basis, BCE Mobile ended the year with revenues of $171 million, up significantly from $122 million in 1987. Consolidated operating income was $10.3 million, compared with an operating loss of $14.6 million in 1987; consolidated net income was $2.0 million, compared with a loss of $11.0 million in 1987.

Consolidated cash flow from operations was $37.6 million compared with $7.4 million for 1987.

In May 1988, BCE Mobile sold a $54 million issue of three million common shares to the public in order to fund capital expenditures; BCE's share of the company at year-end stood at just under 81 per cent. The book value of BCE's investment in BCE Mobile, at year-end, was $176 million. The market value of this investment, based on the year-end price of the traded shares, had grown to $1 billion.

In February 1989, BCE Mobile privately placed two million special warrants to purchase new common shares of BCE Mobile. As part of this transaction, BCE issued one million special warrants to purchase common shares of BCE Mobile now held by BCE. Each warrant permits the holder to acquire one common share. The proceeds to BCE Mobile were $51 million and to BCE $26 million. Exercise of the warrants will reduce BCE's ownership of BCE Mobile to 76 per cent.

Bell Cellular Inc.

Bell Cellular, which began service on July 1, 1985, has shown very strong market growth, with more than 88,000 customers at the end of 1988, an 85 per cent increase over 1987. The company provides uninterrupted service along a 700-mile corridor extending from Windsor, Ontario, to Quebec City, the longest continuous coverage area in North America. The total population in Bell Cellular's coverage area was 11.8 million, including Canada's biggest cities, Montreal and Toronto. By mid-1989, the coverage area will reach some 12.7 million people.

BCE companies have maintained a continuing association with major international sports competitions, including the 1976 Summer Olympics in Montreal and the 1988 Winter Olympics in Calgary. Northern Telecom also will be an official supplier to the 1990 Asian Games, to be held in Beijing.

Bell Cellular contributed $96.0 million to consolidated revenues of BCE Mobile in 1988, compared with $56.2 million in 1987. The company reported an operating profit of $3.4 million, compared with a loss of $22.0 million in 1987.

Bell Cellular customers have access to a broad spectrum of enhanced services such as the Bell Cellular Message Centre, a 24-hour voice-messaging service, Message Alert, which combines voice messaging and paging provided by National Pagette, to notify users of urgent messages; and InfoCell, an information service providing news, business and sports reports.

With a Bell Cellular telephone, this trucker can keep in touch with his dispatch office, even on cross-country trips.

National Pagette Ltd.

Paging services are a growing industry with a well-defined market including physicians, sales and technical support personnel, trades people and others who may need to be reached at any time. National Pagette markets its products in Canada's seven most populous provinces. At the end of the year, National Pagette had some 126,000 pagers in service and 15,000 answering service lines, making it Canada's largest paging and telephone answering service company. National Pagette's revenues in 1988 were $52.1 million, compared with $47.2 million in 1987.

The company has announced a new service, the CONTACT personal paging network, which permits a message to be sent to anyone carrying a pre-programmed National Pagette pager in Canada's major urban centres.

National Mobile Radio Communications Inc.

National Mobile operates more than 200 radio communications sites in Ontario and Quebec providing both voice and data communications systems.

Mobile radio networks are designed for customers such as police, fleet operators and emergency services whose primary requirements involve communications within their own system. Radio networks can be private or shared, and typically comprise one central base station and a number of mobile units. National Mobile's revenues in 1988 were $23.0 million, compared with $18.5 million in 1987.

National Mobile designs and installs custom systems which incorporate hardware, application software, and mobile computer terminals. The company developed Transcad, the first completely integrated computer-aided dispatch and monitoring system offered by a single supplier.

In September, the Toronto Transit Commission signed a $16.8 million contract under which National Mobile will provide a voice/data communications system for all the commission's 2,250 surface vehicles. In cooperation with Bell Cellular, cellular communications will be integrated into the system. This contract demonstrates the value of being able to package different types of mobile service offerings for a customer and is a good example of the potential for private and shared radio services.

This schoolbus operator uses a National Pagette pager to keep in contact with parents of his young passengers.

In November, National Mobile and Motorola Limited announced they will jointly establish a data radio communications network in Canada which will enable travelling sales people, service personnel, dispatch drivers and other users to remain in close touch with their central offices.

BCE Mobile also operates Skytel Communications, an air-to-ground direct-dial telephone service for use by passengers on commercial aircraft.

BCE Information Services Inc.

BCE has international interests in telephone directory publishing, directory advertising sales and printing, as well as an investment in iNet Company of America,

a computer-based information management service. These investments are grouped together under BCE Information Services.

Directory advertising sales and publishing

Telephone directories have been part of the corporation's business for over a century. Drawing from the specialized expertise gained over the years, BCE subsidiaries offer directory services to other telephone companies in Canada, the United States, the South Pacific and the United Arab Emirates. All told, BCE companies are world leaders in providing full-service directory services and sell more than one billion dollars of Yellow Pages advertising per year.

In the United States, wholly owned subsidiaries National Telephone Directory Corporation and Penn-Del Directory Corp. have long-term directory advertising sales contracts with telephone companies in New Jersey, Pennsylvania and Delaware. In Canada, Tele-Direct (Services) Inc. prepares and publishes directories for several companies including Newfoundland Telephone, New Brunswick Telephone, Télébec Ltée, Northern Telephone, and the City of Thunder Bay. Overseas, Y.P. Publishing Australia Pty. Ltd. sells Yellow Pages advertising in Australia, Fiji and Papua-New Guinea.

In response to the increasingly competitive nature of the directory business, particularly in the United States, products and services offered are constantly upgraded and enhanced. Opportunities to expand the directory services lie mostly in overseas markets, and the company intends to build its market share in this direction.

Data management

The iNet Company of America, based in Chantilly, Virginia, is an information management service which offers electronic messaging and data communications services in the United States. Its customers have access to data bases within their own organization and to more than 1,200 public data bases via public telephone lines. Private networks are set up according to the requirements of each customer.

National Telephone Directory Corporation sells Yellow Pages advertising in the state of New Jersey.

Bell Canada developed and has successfully offered this service in Canada as iNet 2000. The U.S. company was set up in cooperation with Ameritech, the parent corporation of five U.S. Bell companies in the Midwest, and Telenet Communications Corporation, which both have options to participate.

iNet America completed its first full year of operation in 1988 and gained several important customers, including the American Bar Association, for which it operates ABA/net, a data base for lawyers and law firms throughout the United States.

BCE Information Services is also pursuing iNet business opportunities in Hong Kong and the United Kingdom.

Energy

TransCanada PipeLines Limited

Results for TransCanada PipeLines, in which BCE has a 49 per cent interest, were disappointing, largely due to the worldwide decline in the price of energy. TCPL's contribution to BCE's 1988 earnings was a loss of $37 million ($0.13 per share) compared with a contribution of $41 million ($0.15 per share) in 1987. The net loss applicable to common shares for TCPL was $46 million, compared with net income of $121 million in 1987.

Prices for crude oil and natural gas remain volatile. In 1988, the average price received for Canadian conventional crude oil was $15.74 per barrel, a reduction of $5.34 per barrel from 1987. The average price for natural gas in Canada was $1.57 per thousand cubic feet, a drop of 11 cents from 1987.

Another factor in the 1988 performance was the sale of the assets of TCPL's U.S. oil and gas subsidiary, Wessely Energy Company of Dallas, Texas, which resulted in an after-tax loss of $53 million. BCE's share of this loss was $26 million.

TCPL also announced a write-down of $72 million, both before and after taxes. Management decided that the carrying value of certain assets should be reduced because their ultimate recovery is uncertain. BCE's share of this write-down was $35 million.

The strength of the Canadian dollar also had a negative impact on TCPL's results. This was because the benchmark price for crude oil and income from associated pipelines in the U.S. are both denominated in U.S. dollars, which translated into lower Canadian dollar earnings for TCPL.

A distribution pipe at a compressor station, part of TCPL's 4,400 kilometre system transporting natural gas from western Canada to eastern Canadian markets.

TCPL owns and operates the sole Canadian pipeline system transporting natural gas from western Canada to eastern Canadian markets. The company is the country's largest buyer and seller of Canadian natural gas, which it resells to customers in Canada and the U.S. It transports this gas, as well as gas owned by others, through its pipeline system, which extends 4,400 kilometres from Alberta to Quebec. As well, the company has interests in other pipelines in Canada and in the United States and in other industry-related businesses.

TCPL subsidiaries, TCPL Resources Ltd. and Encor Energy Corporation Inc., engage in oil and gas exploration, development and production operations in Canada, Australia, New Zealand, the United Kingdom, Italy, the Netherlands, and Indonesia. This is the portion of TCPL's business most affected by the unstable energy prices.

TCPL has taken measures to reduce debt, dispose of non-essential assets and restructure the company to take advantage of a strong market for pipeline transmission of natural gas. More than $280 million in non-essential assets, including Wessely Energy Company, were sold during the year.

Early in 1989, TCPL announced a major corporate restructuring which, following shareholder and other approvals, will see all TCPL's oil and gas interests consolidated in Encor Energy Corporation. Encor then will become a separate, publicly traded company. TCPL common shareholders, including BCE, will receive one share of Encor for every share of TCPL they own. BCE will also purchase $226.5 million of preferred shares, convertible to 33 per cent of Encor on the effective date. As part of the restructuring, Encor will adopt the "successful efforts" method of accounting for its oil and gas operations. This change, from the "full cost" method of accounting, will reduce the book value of Encor by approximately $200 million after tax.

Rapid alterations in the recent economic environment have made it evident that the pipeline and the oil and gas businesses would function better as two separate entities. At the same time, market valuation of the two companies will more accurately reflect the true potential of each. This restructuring should work in TCPL's favour, notably in the financing of upcoming major expansions. In addition, bond-rating agencies have indicated they will likely re-evaluate TCPL as a result of the reorganization.

Manoeuvring drilling equipment on a platform offshore New Zealand.

Encor will continue rationalization of its large and diverse portfolio of oil and gas properties, through asset sales and swaps. It will aim at becoming an operator, rather than a passive investor, in a greater proportion of the projects in which it has interests. The goal is to achieve greater control, reduce administrative costs and focus activities on the most promising projects.

TCPL will concentrate on the pipeline business. A resurgence in demand for natural gas, both in Canada and the United States, had TCPL's existing pipeline system working at capacity for much of the year. The company delivered 1.346 trillion cubic feet of natural gas during the 1987-88 contract year, a 17 per cent increase over last

year's levels. Export deliveries of gas to the United States increased by 71 per cent to 140 billion cubic feet. Within Canada, deliveries grew by six per cent to 54 billion cubic feet.

This trend, expected to continue well into the next decade, has prompted TCPL to make major investments in its delivery system. In 1988, the company spent $126 million to build new facilities, largely in Ontario, the biggest construction program since 1982. Over the coming two years, TCPL is proposing to spend $1.3 billion to expand its pipeline system. The National Energy Board (NEB) has approved the first portion of this program, $650 million in new construction to expand deliveries into eastern Canada and the northeastern United States. In 1990, TCPL plans to spend another $652 million to expand the western section of the pipeline system, in Manitoba and Saskatchewan. About 85 per cent of the gas sales projected from this expansion are destined for the United States.

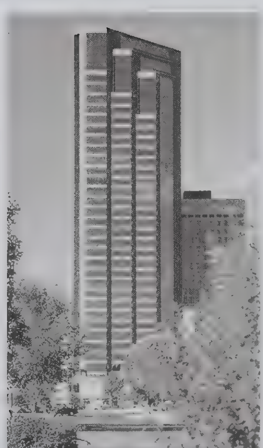
In a move to reduce its debt load, TCPL issued 18.9 million common shares in March 1988, of which BCE purchased 9.3 million, for aggregate net cash proceeds of $247 million. These funds were used to repay a portion of the debt incurred in the 1987 acquisition of Encor.

Real Estate

BCE Development Corporation

BCE's real estate interests are held through BCE Development Corporation, which has $2.7 billion in assets, concentrated in prime office and commercial properties in locations including Vancouver, Toronto, Chicago, Minneapolis, St. Paul, Denver, Phoenix and Orange County, California.

BCED, 67 per cent owned by BCE, ended 1988 with a net income of $0.1 million, compared with net income of $16.1 million in 1987. The effect on BCE's earnings was a loss of $6.4 million ($0.02 per share), compared with a contribution of $5.7 million ($0.02 per share) in 1987.



The Minnesota World Trade Center, owned by BCED, rises 36 storeys above St. Paul.

Early in 1989, BCE, BCED, and Olympia & York Developments Limited announced they had entered into discussions which may result in Olympia & York taking a 49.9 per cent interest in a BCE subsidiary which, in turn, would own 53.1 per cent of BCED. The proposal would result in a $225 million equity investment in BCED. BCE would own 50.1 per cent of the subsidiary, as well as 14.3 per cent of BCED shares directly; Olympia & York would also own 14.3 per cent directly, and the public would own approximately 18.3 per cent.

During 1988, BCED had under construction more major projects than at any other time in its 25-year history. This included about 3.6 million square feet of office and retail space. Most activity centred on Toronto, Vancouver, Chicago, Minneapolis and Orange County.

BCED's objective is to acquire and develop a portfolio of investment-grade office and commercial properties. It has been moving away from residential properties, and in 1988 reached agreement to sell much of its land holdings in southern California.

One of BCED's major projects is BCE Place in Toronto. The 51-storey Canada Trust Tower is proceeding on budget and on schedule, with leasing well advanced in one of the strongest markets in North America. The Canada Trust Tower, the first of two, is scheduled for completion early in 1990. The project covers a full city block in the heart of Toronto's financial district.

BCED announced a joint venture, in downtown Montreal, with Group Lavalin Ltée and Teleglobe Canada Inc. to build and own a 43-storey office building at 1000 de La Gauchetière. BCED will develop and manage the project, which is 55 per cent pre-leased by Group Lavalin and Teleglobe.

The first phase of BCE Place, Canada Trust Tower, is rising rapidly in Toronto's financial core.

BCED has been recommended as the developer for Revenue Canada's new regional headquarters building in Vancouver. Construction of the 340,000 square foot, 18-storey tower will commence in May 1989, with completion expected by mid-1991. Also in Vancouver, the company is in the final stages of completing a transaction with the Terminal City Club. The company expects to proceed with the demolition of the existing club facility and adjoining office building, replacing it with a 330,000 square foot, 22-storey office tower which will incorporate a new expanded club.

In Orange County, California, BCED will begin construction shortly of an office structure at MacArthur Place, the initial project of a $1 billion, 10-year development program which will include 4.4 million square feet of office, hotel, retail and residential space.

BCED also embarked on shopping centre projects in Corona, Long Beach and Vista, California; in the greater Vancouver region; and in Calgary. The company has completed two industrial parks in California, and is pursuing development of Sunridge Business Park near Calgary.

BCED owns a 1,200-acre undeveloped property called Scripps Ranch North, near San Diego. This property could accommodate over 3,300 residential units and includes 118 acres of industrial and commercial land. The company expects to develop this property in partnership with one or more California house builders. The company also has interests in two hotels, the Vista Marquette Hotel in downtown Minneapolis, which is being upgraded, and the Indian Wells Hotel, which is under construction near Palm Springs, California.

Many of BCED's assets are just emerging from the development stage. In addition, higher interest rates have affected financing costs. However, the company has entered into several transactions which reduce financing cost and exposure to variable rate debt.

— In Chicago, BCED sold a 90 per cent interest in Quaker Tower, a 35-storey office tower, to Shuwa Investments, one of Japan's largest real estate investment and development companies. BCED will continue to operate and manage the building on behalf of the partnership.

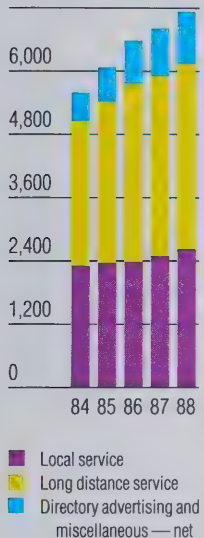
This 43-storey office tower will rise in Montreal, at 1000 de La Gauchetière.

— In Toronto, BCED sold half its 80 per cent interest in Phase One of BCE Place to the Ontario Municipal Employees Retirement Board (OMERS) and negotiated a favourable fixed-rate 10-year mortgage for BCED's share of development costs. The remaining 20 per cent is owned by Canada Trust. BCED holds a 100 per cent interest in Phase Two of BCE Place.

— In Chicago and Minneapolis, BCED formed joint ventures with a real estate investment trust, advised by Deutsche Bank, to develop two retail projects, Chicago Place and Gaviidae Common (Nicollet Mall) in Minneapolis. In return for a 50 per cent equity position, the trust will provide the permanent financing for these projects at favourable fixed rates of return. Chicago Place, a combined residential and retail project, is scheduled to open in 1990. Gaviidae Common, an upscale retail centre, will open in August 1989.

Financial Review

Telecommunications operations — revenues
(millions of dollars)



Results of Operations

Net Income

BCE consolidated net income in 1988 was $887 million, compared with $1,087 million in 1987 and $1,024 million in 1986. Consolidated income applicable to common shares in 1988 was $882 million ($3.09 per common share), compared with $1,054 million ($3.91 per share) in 1987 and $986 million ($3.83 per share) in 1986. Earnings per share in 1988 were based on an average of 285.4 million common shares outstanding, up 5.9 per cent from 269.4 million in 1987, which had increased 4.6 per cent from 257.6 million in 1986. BCE consolidated earnings per share in 1988 are after deducting preferred dividend requirements equivalent to $0.02, compared with $0.12 in 1987 and $0.14 in 1986.

BCE earnings for 1988 reflect provisions by two BCE companies: $242 million (U.S. $200 million) established by Northern Telecom Limited to cover the costs of a restructuring program announced during the fourth quarter; and $72 million by TransCanada PipeLines Limited (TCPL) following a reduction in the carrying value of certain of its assets. Earnings also reflect other provisions, of $97 million, related to international operations, printing and publishing. The provisions, after giving effect to taxes and minority interest, reduced 1988 earnings by $190 million and earnings per share from $3.76 to $3.09. 1988 earnings also reflect gains ($0.33 per share) recorded on disposition of, or reduction of ownership interest in, subsidiaries.

Contributions to Earnings

Bell Canada contributed $759 million ($2.66 per common share) to BCE's net income in 1988, compared with $703 million ($2.61 per share) in 1987 and $664 million ($2.58 per share) in 1986. Northern Telecom, 52.8 per cent owned by BCE, contributed $106 million ($0.37 per share) in 1988, compared with $227 million ($0.84 per share) in 1987 and $208 million ($0.81 per share) in 1986. Other companies contributed $22 million ($0.08 per share), compared with $157 million ($0.58 per share) in 1987 and $152 million ($0.58 per share) in 1986.

Included in the 1988 contributions from other companies was a loss of $37 million ($0.13 per share) from TCPL; and a contribution of $18 million ($0.06 per share) from international consulting services. This compares with 1987 contributions of $41 million ($0.15 per share) from TCPL and $69 million ($0.26 per share) from international consulting services; and with 1986 contributions of $31 million ($0.12 per share) from TCPL and $79 million ($0.31 per share) from international consulting services.

Telecommunications Operations

Operating revenues of Bell Canada and other telecommunications operating subsidiaries increased by $330 million (4.9 per cent) in 1988, and by $222 million (3.4 per cent) in 1987.

Local service revenues of telecommunications subsidiaries increased by $142 million (5.7 per cent) in 1988, compared with an increase of $109 million (4.6 per cent) in 1987 and $26 million in 1986. The increase in local service revenues in 1988 was due mainly to growth in network access services and in revenues generated from service options. Network access services, which account for the major portion of local service revenues, increased by 4.4 per cent in 1988, compared with 4.8 per cent in 1987 and 4.3 per cent in 1986. This growth occurred in both business and residential markets, although growth in 1988 was slightly lower due to a strike at Bell Canada. In 1988 and 1987, and to a greater extent, in 1986, local service revenue increases were partially offset by the impact of conversions from traditional rental services to sales-type lease services, and by some competitive erosion in the rental of terminal equipment.

The Canadian Radio-television and Telecommunications Commission (CRTC) fixed Bell Canada's permissible range of rate of return on average common equity for 1988 at the same level as 1987 (12.25% to 13.25%) and, to achieve the mid-point of that range, ordered long distance rate reductions effective April 1, 1988 in order to reduce revenues in 1988 by approximately $40 million. Considering that Bell Canada's earnings would exceed the permissible range, the CRTC ordered further long distance rate reductions effective May 16 and June 1, 1988 in order to reduce revenues for the remainder of 1988 by approximately an additional $85 million.

Long distance service revenues increased by $98 million (2.9 per cent) in 1988, compared with $53 million (1.6 per cent) in 1987, and $315 million (10.4 per cent) in 1986. Growth was due primarily to increases in the number of long distance messages. The 1988 and 1987 revenue growth rates were lower however, because of the various rate reductions in those years.

The number of long distance messages increased by 16 per cent in 1988 over 1987, 15.7 per cent in 1987 over 1986 and 10.8 per cent in 1986 over 1985. The increased usage reflected the continuing strength of the economic climate and, to a lesser extent, stimulation in demand due to rate reductions in 1988 and 1987, notwithstanding the 10 per cent federal telecommunication services tax on users introduced January 1, 1988 and a strike at Bell Canada.

Operating expenses increased by $260 million (5.2 per cent) in 1988, by $293 million (6.2 per cent) in 1987 and by $401 million (9.3 per cent) in 1986. Increases in salaries, wages, and depreciation expense were partially offset by lower pension expenses and, for 1988, by the effect of a strike at Bell Canada. The 1986 increase resulted primarily from higher employee-related expenses and the expensing of various items formerly capitalized.

A strike by approximately 19,500 operator services, dining services and craft and services employees of Bell Canada commenced on June 27, 1988, and was settled on October 23, 1988. The strike did not have a material impact on Bell Canada's 1988 net income.

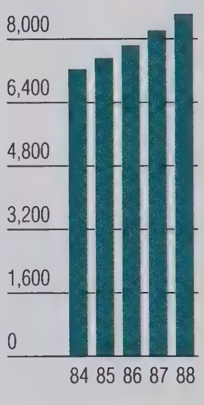
Telecommunications Equipment Manufacturing

Northern Telecom reports its results in U.S. dollars but in this review, unless otherwise indicated, Northern Telecom's results are translated into Canadian dollars. In early 1988, BCE hedged the expected amount of this translation exposure for the year 1988, by entering into foreign exchange forward contracts.

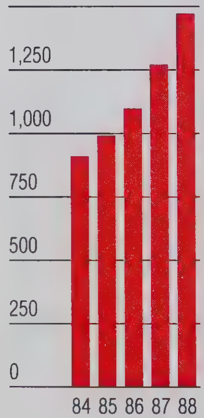
Northern Telecom's revenues were $6,598 million (U.S. $5,408 million) for 1988, compared with $6,471 million (U.S. $4,915 million) in 1987 and $6,114 million (U.S. $4,339 million) in 1986. These increases were attributable chiefly to volume growth rather than to price increases. These figures include results for the finance subsidiaries, which are now fully consolidated. Revenues increased for four of the five reported product lines in 1988, with the most significant gain recorded by central office switching and transmission products. Revenues in 1988 increased in Canada and in the United States, but decreased in international markets.

Revenues from sales in the United States were $4,128 million (62 per cent of total revenues) in 1988, up 2.1 per cent from $4,042 million (62 per cent of total) in 1987, which were up 0.6 per cent from $4,018 million (65 per cent of total) in 1986. The growth in revenues from 1986 to 1988 was across all product lines, but resulted mainly from increased sales of central office switching equipment to telephone operating companies.

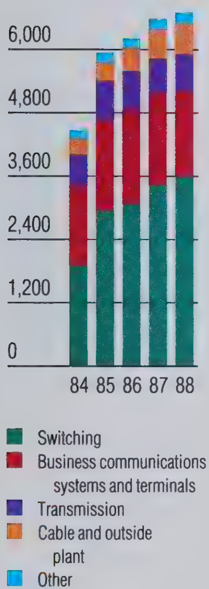
Network access services
(thousands)



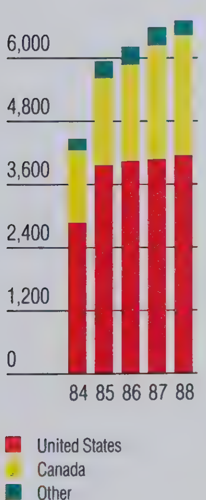
Long distance messages
(millions)



NTL revenues by product lines
(millions of dollars)



NTL revenues by geographic areas
(millions of dollars)



Canadian revenues advanced 5.5 per cent in 1988 to $2,277 million (34 per cent of total revenues), from $2,159 million (33 per cent of total) in 1987, which were up 18.5 per cent from $1,822 million (30 per cent of total) in 1986. The growth in revenues for all those years resulted mainly from increased capital spending programs by the telecommunications operating companies as the Canadian economy remained strong.

Revenues from international operations of $252 million (four per cent of total revenues) decreased 21.7 per cent in 1988 from $322 million (five per cent of total) in 1987, which were up 0.3 per cent from $321 million (five per cent of total) in 1986. The decrease in revenues in 1988 reflected the sale of some European businesses to STC PLC (STC) in February 1988. The increase in revenues in 1987 was due mainly to increased demand for business communications products in Europe.

Central office switching revenues for 1988 were $3,583 million (54 per cent of total revenues), up 4.8 per cent from 1987 revenues of $3,420 million (53 per cent of total), which were up 11.5 per cent from $3,068 million (50 per cent of total) in 1986. The increase in 1988 was due to increased demand from telephone operating companies in the U.S. and in Canada.

Business communications systems and terminals revenues in 1988 were $1,615 million (24 per cent of total revenues), down 6.5 per cent from $1,728 million (27 per cent of total) in 1987, which were down 1.9 per cent from $1,762 million (29 per cent of total) in 1986.

Revenues from other products (principally transmission, cable and outside plant) were $1,459 million (22 per cent of total revenues), up 6.1 per cent from $1,375 million (20 per cent of total) in 1987, which were up 3.3 per cent from $1,331 million (21 per cent of total) in 1986.

Gross profit increased in 1988 to $2,695 million, up $45 million from $2,650 million in 1987, which was $308 million better than 1986. The gross profit margin in 1988 was 40.8 per cent of total revenues, down slightly from the 41 per cent of the total revenues in 1987, but improved over 1986 gross profit margin of 38.3 per cent of total revenues. The net increase in gross margin was due principally to improved profit margins in the central office switching business.

Orders on hand at December 31, 1988 were U.S. $1.66 billion, up 4.4 per cent from U.S. $1.59 billion in orders on hand at the end of 1987. Orders on hand were U.S. $1.54 billion at the end of 1986. The current orders on hand, most of which are for delivery in 1989, have shorter delivery intervals compared with prior periods, particularly in the central office switching business.

Selling, general and administrative (SG&A) expenses in 1988 of $1,329 million (20.1 per cent of total revenues) increased by 7.4 per cent ($92 million) from the 1987 figure of $1,237 million (19.1 per cent of total), compared with $1,078 million (17.6 per cent of total) in 1986. The increase in SG&A expenses over the last three years reflects higher selling and marketing expenses directed at expanding Northern Telecom's presence and improving customer service and support in all markets, particularly the international market. Net research and development (R&D) investment in 1988 was $874 million (13.2 per cent of total revenues), compared with $780 million (12.1 per cent of total) in 1987; the 1986 level was $659 million (10.8 per cent of total).

During the fourth quarter of 1988, in order to enhance Northern Telecom's ability to compete more effectively in global markets, Northern Telecom announced plans to phase out certain manufacturing plants and to restructure certain other businesses. As a result, a provision of $242 million (U.S. $200 million) was established to cover the costs of this restructuring program.

Research and Development

Consolidated R&D expenditures, which include net R&D investment of Northern Telecom mentioned above, amounted to $998 million in 1988, compared with $925 million in 1987 and $788 million in 1986.

Real Estate Operations

Operating revenues were $807 million in 1988, compared with $404 million in 1987 and $292 million in 1986. Operating expenses were $775 million in 1988, compared with $359 million in 1987 and $282 million in 1986. The sale of major properties in Canada and in the United States during 1988 was less profitable than in the previous years and, while accounting for the increases in both revenues and expenses, results in a decrease in net revenues.

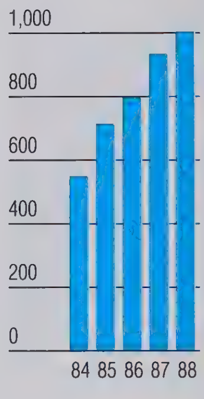
Other Operations

Other operations include international consulting services; printing and publishing, most of which were sold in 1988; and other activities. Net revenues were $40 million in 1988, compared with $149 million in 1987 and $187 million in 1986. The decreases in net revenues from 1986 to 1988 are due mainly to the gradual reduction in international consulting services, reflecting the reduced level of activities in Saudi Arabia. The main contract with the Kingdom of Saudi Arabia ended on December 13, 1988, although some smaller contracts remain in force.

Associated Companies

The equity in net income of associated companies was $66 million in 1988, compared with $110 million in 1987 and $56 million in 1986. The decrease in 1988, from 1987, is due mainly to a reduced contribution from TCPL; principally BCE's share ($61 million) of a combination of a loss of $53 million incurred by TCPL on the sale of all its United States oil and gas properties held by Wessely Energy Company, and of a provision of $72 million recorded by TCPL to reduce the carrying value of certain assets in 1988. The increase in 1987 over 1986 reflects equity income from STC, acquired in the fourth quarter of 1987 by Northern Telecom.

Consolidated R&D expenditures
(millions of dollars)



Liquidity and Capital Resources

The principal requirement for funds is for capital expenditures and to acquire new and additional investments.

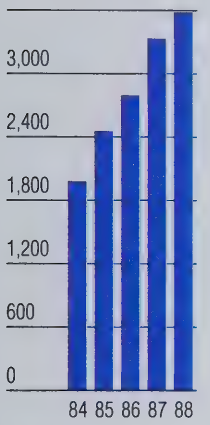
Consolidated net capital expenditures during 1988 were $3,537 million, compared with $3,359 million in 1987 and $2,754 million in 1986. Substantially all such capital expenditures were made by the following subsidiaries: Bell Canada, Northern Telecom and BCE Development Corporation (BCED). Consolidated investments acquired amounted to $1,040 million in 1988, $1,450 million in 1987 and $585 million in 1986. Substantially all the investments in 1988 and 1986 were made by BCE. In 1987, the major portion was accounted for by Northern Telecom's investment in STC.

Information on liquidity and capital resources for BCE Inc. and its principal subsidiaries follows:

BCE Inc.

BCE raised $159 million of common equity in 1988, principally by means of the Dividend Reinvestment and Stock Purchase Plan. During 1988, BCE invested $342 million in common shares of Bell Canada, $319 million in notes of Kinburn Corporation maturing over six to eight years, $161 million in Quebecor (comprised of notes of $81 million and the balance of shares), $147 million in Northwestel, as well as an additional investment of $134 million in TCPL.

Gross capital expenditures
(millions of dollars)



During the year, BCE sold two businesses, Rolph-Clark-Stone Packaging Corporation and Bell Technical Services Inc., to Kinburn Corporation for notes of $110 million; and BCE sold its shares of Computer Innovations Distribution Inc. to a subsidiary of Kinburn for notes of $56 million. In the fourth quarter 1988, BCE sold most of its printing businesses to Quebecor for $161 million. On April 28, 1988, BCE sold, in the European market, $300 million of $9^5/_8$% Notes, at a price to yield 9.53%, due 1993, to refinance short-term borrowings. BCE's net short-term borrowings amounted to $802 million at December 31, 1988, compared with $179 million at December 31, 1987.

Bell Canada

Gross capital expenditures were $2,200 million in 1988, compared with $1,991 million in 1987. Capital spending has increased in 1988 and 1987 reflecting continued growth in demand for services. Bell Canada's capital expenditure program in 1989 is expected to increase by approximately six per cent to $2,325 million.

During 1988 and 1987, in addition to funds raised from the issue of shares to BCE, funds from external sources amounted to $625 million and $721 million, respectively. In 1988, these funds were obtained through issues of $375 million of debentures in Canada, $150 million of debentures in Europe, and the issue of preferred shares to the public in Canada for $100 million. In 1987, funds from external sources were obtained through issues of debentures in Canada, Japan, the United States and Europe, for a total amount of $596 million, and the issue of preferred shares to the public in Canada for $125 million.

Northern Telecom

Capital expenditures in 1988 were $618 million, an increase of 11.4 per cent from 1987 expenditures of $555 million. In 1989, Northern Telecom expects its capital spending to amount to approximately $530 million. In 1988, Northern Telecom increased its short-term borrowings by $179 million, principally through the sale of commercial paper. In October 1988, Northern Telecom sold U.S. $100 million of $9^1/_4$% Notes, due 1993, to refinance short-term debt. In 1988, the finance subsidiaries raised $186 million in fixed and variable rate notes and loans. In December 1988, Northern Telecom filed a shelf registration with the U.S. Securities and Exchange Commission allowing it to offer, from time to time, up to U.S. $300 million of its debt securities and warrants to purchase debt securities.

In 1989, Northern Telecom expects to meet its cash requirements through cash provided by operations, by refinancing debt maturing in 1989, and by external financing to be undertaken if and when suitable opportunities become available.

BCED

During 1988, BCED completed a $100 million 8% convertible subordinated debenture issue, with BCE subscribing for $25 million. In 1987, BCED directly issued $90 million of preferred shares. In addition, a subsidiary of BCED issued preferred shares for an amount of $104 million. BCE provided certain guarantees with respect to the latter issue.

Contents

Consolidated Income Statement

	For the years ended December 31	1988	1987	1986
		(millions of dollars)		
Telecommunications operations	Operating revenues	$7,093	$6,763	$6,541
	Operating expenses	5,251	4,991	4,698
	Net revenues — telecommunications operations	**1,842**	**1,772**	**1,843**
Telecommunications equipment manufacturing	Revenues (note 1)	6,598	6,471	6,114
	Cost of revenues	3,903	3,821	3,772
	Selling, general, administrative and other expenses	2,203	2,017	1,737
	Restructuring costs (note 2)	242	—	—
		6,348	5,838	5,509
	Net revenues — telecommunications equipment manufacturing	**250**	**633**	**605**
Real estate operations	Operating revenues	807	404	292
	Operating expenses	775	359	282
	Net revenues — real estate operations	**32**	**45**	**10**
Other operations	Operating revenues	755	1,092	1,063
	Operating expenses	715	943	876
	Net revenues — other operations	**40**	**149**	**187**
	Total net revenues	**2,164**	**2,599**	**2,645**
Other income (expense)	Equity in net income of associated companies (note 3)	66	110	56
	Allowance for funds used during construction	41	31	28
	Interest — long-term debt	(623)	(554)	(525)
	— other debt	(138)	(81)	(48)
	Unrealized foreign currency gains (losses) (notes 1 and 20)	2	(10)	(38)
	Miscellaneous — net (note 5)	203	145	89
		(449)	**(359)**	**(438)**
	Income before income taxes and minority interest	1,715	2,240	2,207
	Income taxes (note 4)	646	866	932
	Income before minority interest	1,069	1,374	1,275
	Minority interest	182	287	251
	Net income (notes 20 and 23)	**887**	**1,087**	**1,024**
	Dividends on first preferred shares	5	33	38
	Net income applicable to common shares	**$ 882**	**$1,054**	**$ 986**
Earnings per share	Earnings per common share (notes 8, 20 and 23)	$3.09	$3.91	$3.83
	Assuming full dilution	$3.09	$3.85	$3.77
	Dividends declared per common share	$2.45	$2.41	$2.37
	Average common shares outstanding (thousands)	285,427	269,402	257,623

The important differences between Canadian and United States generally accepted accounting principles affecting the consolidated income statement are described and reconciled in note 20.

Consolidated Balance Sheet

Assets

	At December 31	1988	1987
		(millions of dollars)	
Current assets	Cash and temporary cash investments — at cost (approximates market)	$ 70	$ 212
	Accounts receivable — principally from customers, including $50 (1987 — $40) from associated companies, and less $32 (1987 — $62) for provision for uncollectibles	3,240	2,975
	Inventories (note 10)	1,071	1,040
	Other (principally prepaid expenses)	334	176
		4,715	**4,403**
Investments	Associated companies (at equity) (notes 1 and 3)	2,853	2,824
	Other investments (at cost) (note 7)	396	—
		3,249	**2,824**
Property, plant and equipment	At cost (note 11)	26,715	24,644
	Less: Accumulated depreciation	8,763	7,769
		17,952	**16,875**
Other assets	Long-term notes and receivables	1,738	1,610
	Deferred charges — unrealized foreign currency losses, less amortization	42	186
	— other	275	248
	Cost of shares in subsidiaries in excess of underlying net assets, less amortization (note 1)	98	58
		2,153	**2,102**
	Total assets	**$28,069**	**$26,204**

On behalf of the Board of Directors:

Lucien G. Rolland
Director

Marcel Bélanger
Director

Liabilities and Shareholders' Equity

	At December 31	1988	1987
		(millions of dollars)	
Current liabilities	Accounts payable	$ 2,520	$ 2,286
	Advance billing and payments	174	124
	Dividends payable	209	182
	Taxes accrued	18	120
	Interest accrued	212	165
	Debt due within one year (note 12)	2,597	1,698
		5,730	**4,575**
Long-term debt	Long-term debt (including unrealized foreign currency losses) (note 13)	**7,448**	**7,005**
Deferred credits	Income taxes	2,305	2,159
	Other	445	454
		2,750	**2,613**
Minority interest in subsidiary companies	Preferred shares	1,105	1,020
	Common shares	1,667	1,724
		2,772	**2,744**
Preferred shares	Preferred shares (redeemable) (note 14)	**13**	**243**
Common shareholders' equity	Stated capital of common shares (note 15)	4,802	4,414
	Contributed surplus	1,034	1,034
	Retained earnings	3,681	3,508
	Foreign exchange adjustment (note 16)	(161)	68
		9,356	**9,024**
Commitments and contingent liabilities (note 9)			
	Total liabilities and shareholders' equity	**$28,069**	**$26,204**

Donald R. Newman
Vice-President and Comptroller

Consolidated Statement of Retained Earnings

For the years ended December 31	1988	1987	1986
	(millions of dollars)		
Balance at beginning of year	$3,508	**$3,115**	**$2,757**
Net income	887	1,087	1,024
	4,395	**4,202**	**3,781**
Deduct:			
Dividends			
First preferred shares	5	33	38
Common shares	705	650	615
	710	**683**	**653**
Costs related to issuance and redemption of share capital of BCE Inc. and of subsidiaries	4	11	13
	714	**694**	**666**
Balance at end of year	$3,681	**$3,508**	**$3,115**

Consolidated Statement of Changes in Financial Position

For the years ended December 31	1988	1987	1986
	(millions of dollars)		
Cash provided from (used for) operating activities			
Net income	$ 887	$ 1,087	$ 1,024
Items not affecting cash			
Depreciation	1,601	1,530	1,414
Minority interest	182	287	251
Deferred income taxes	188	137	188
Equity in net income of associated companies lower than (in excess of) dividends received	28	(23)	19
Allowance for funds used during construction	(41)	(31)	(28)
Other items	(93)	(72)	24
Cash recovery from real estate sales (net of related debt of $416 in 1988, 1987 — $204, 1986 — $133)	293	88	95
(Increase) decrease in working capital (note 18)	(198)	93	50
	2,847	**3,096**	**3,037**
Cash provided from (used for) financing activities			
Proceeds from long-term debt	1,773	1,870	722
Reduction of long-term debt	(686)	(585)	(588)
Issue of common shares			
Underwritten and privately placed issues	—	—	388
Dividend Reinvestment and Stock Purchase Plan	156	288	266
Optional Stock Dividend Program	3	3	4
In exchange for shares of a subsidiary	—	9	—
Issues of common and preferred shares by subsidiaries to minority shareholders	190	427	287
Redemption of preferred shares by subsidiaries	(11)	(201)	—
Notes payable and bank advances	1,096	343	174
Other items	(214)	(120)	97
	2,307	**2,034**	**1,350**
Cash provided from (used for) investing activities			
Capital expenditures (net)	(3,537)	(3,359)	(2,754)
Investments	(1,040)	(1,450)	(447)
Long-term notes and receivables	(126)	(349)	66
Other items	239	142	46
	(4,464)	**(5,016)**	**(3,089)**
Dividends declared by			
BCE Inc.	(710)	(683)	(653)
Subsidiaries to minority shareholders	(122)	(109)	(87)
	(832)	**(792)**	**(740)**
Cash and temporary cash investments			
Increase (decrease)	(142)	(678)	558
At beginning of year	212	890	332
At end of year	**$ 70**	**$ 212**	**$ 890**

1. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and all figures are in Canadian dollars. These statements conform in all material respects with International Accounting Standards. Certain previously reported figures have been reclassified to conform with the current presentation.

With respect to the consolidated financial statements of BCE, the important differences between Canadian and United States generally accepted accounting principles are described and reconciled in note 20.

Consolidation

The consolidated financial statements include the accounts of all majority-owned subsidiaries, either direct or indirect. The investments in associated companies (20% to 50% owned) are accounted for by the equity method. The finance subsidiaries of Northern Telecom Limited, which in the past were accounted for by the equity method, are now fully consolidated and previously reported figures have been restated. This change has no effect on current, or previously reported, consolidated net income.

At December 31, 1988, the direct subsidiaries of BCE (100% owned, unless otherwise indicated) included Bell Canada, Northern Telecom Limited (52.8%), BCE Information Services Inc., NewTel Enterprises Limited (55.5%), Télébec Ltée, Northern Telephone Limited (99.8%), Northwestel Inc., Bell Canada International Inc., BCE Development Corporation (67.0%) and BCE Mobile Communications Inc. (80.6%).

The excess of cost of shares over acquired equity (goodwill) of subsidiary and associated companies is being amortized to earnings on a straight-line basis over its estimated life. The amortization, over periods up to 40 years, amounted to $45 million in 1988 (1987 — $23 million, 1986 — $21 million).

Telecommunications equipment purchased by Bell Canada and the other telephone subsidiaries of BCE, from Northern Telecom Limited and its subsidiaries, is reflected in BCE's consolidated balance sheets at the cost to the purchasing companies, and is included in telecommunications equipment manufacturing revenues in the consolidated income statement. To the extent that any income related to these revenues, and those from associated companies, has not been offset by depreciation or other operating expenses, it remains in consolidated retained earnings and consolidated income. This practice is generally followed with respect to activities of regulated industries. All other significant intercompany transactions have been eliminated in the consolidated financial statements.

1. ACCOUNTING POLICIES (continued)

Telecommunications equipment manufacturing revenues comprise:

	(millions of dollars)		
	1988	1987	1986
a) revenues from			
Bell Canada	$1,416	$1,391	$1,147
Other telephone subsidiary and associated companies of BCE	181	146	110
b) revenues from others	5,001	4,934	4,857
Total	**$6,598**	**$6,471**	**$6,114**

Depreciation

Depreciation is generally computed using the straight-line method, with rates based on the estimated useful lives of the assets.

Research and development

All research and development costs incurred, which amounted to $998 million (1987 — $925 million, 1986 — $788 million), were charged to income.

Translation of foreign currencies

Foreign operations are classified as integrated or self-sustaining.

— Integrated foreign operations and transactions denominated in foreign currencies

Current assets (excluding inventories and prepaid expenses), current liabilities and long-term monetary assets and liabilities are translated at the rates in effect at the balance sheet date; whereas other assets and other liabilities are translated at rates prevailing at the respective transaction dates; revenues and expenses are translated at average rates prevailing during the year; except for cost of inventory used, depreciation and amortization, which are translated at exchange rates prevailing when the related assets were manufactured or acquired. Currency gains and losses are reflected in net income of the year, except for unrealized foreign currency gains and losses on long-term monetary assets and liabilities, which are reported as a deferred charge and amortized over the remaining lives of the related items on a straight-line basis.

— Self-sustaining foreign operations

Assets and liabilities denominated in a foreign currency are translated in Canadian dollars, at exchange rates in effect at the balance sheet date. The resulting gains or losses are accumulated in a separate component of shareholders' equity. Revenue and expense items are translated at average exchange rates prevailing during the year.

Leases

Leases are classified as capital or operating leases. When the corporation is the lessor, rental revenue from operating leases is recognized as service is provided to customers. For leases which qualify as sales-type leases, the sales revenue is recorded at the inception of the lease. When the corporation is the lessee, assets recorded under capital leases are amortized on a straight-line method, using rates based on the estimated useful life of the asset or based on the lease term as appropriate. Obligations recorded under the capital leases are reduced by rental payments net of imputed interest.

1. ACCOUNTING POLICIES (continued)

Inventories

Inventories are valued at the lower of cost (calculated generally on a first-in, first-out basis) or net realizable value. The cost of finished goods and work-in-process inventories is comprised of material, labour and manufacturing overhead.

Allowance for funds used during construction

Regulatory authorities require telecommunications companies to provide for a return on capital invested in new plant while under construction, by including an allowance for funds used during construction as an item of income during the construction period, and also as an addition to the cost of plant constructed. Such income is not realized in cash currently but will be realized over the service life of the plant.

Consulting services

Consulting services under contract to clients, principally foreign telecommunications organizations, are included in other operations. The percentage-of-completion accounting method is used in the determination of income from such operations.

Real estate activities

Certain indirect costs, including financing costs, are capitalized. The financing costs capitalized amounted to $143 million for the year ended December 31, 1988 (1987 — $138 million, 1986 — $101 million).

Income taxes

BCE and its subsidiaries use the tax allocation basis of accounting for income taxes. The corporation provides for income taxes based on accounting income for tax purposes included in the financial statements, regardless of when such income is subject to taxes under tax laws. Investment tax credits reduce the provision for income taxes in the same periods in which the related expenditures are charged to earnings.

2. RESTRUCTURING COSTS OF NORTHERN TELECOM LIMITED

During the fourth quarter of 1988 Northern Telecom Limited announced plans to phase out certain manufacturing plants and to restructure certain other businesses in order to enhance its ability to compete more effectively in global markets. As a result, a provision of $242 million was established by Northern Telecom to cover the costs of this restructuring program.

3. INVESTMENTS IN ASSOCIATED COMPANIES

BCE uses the equity method of accounting for investments in companies where ownership by BCE, or a subsidiary, ranges from 20% to 50%. Under this accounting method, BCE's proportional share of income of such companies, from the dates of their acquisition, net of amortization of excess purchase price over net assets acquired, is taken into income and added to the cost of investments. Income received from these companies reduces the carrying amounts of the investments.

3. INVESTMENTS IN ASSOCIATED COMPANIES (continued)

The following is a summary of the investments in associated companies for the last three years:

	(millions of dollars)						
	TransCanada PipeLines Limited (TCPL) (a)	STC PLC (b)	Memotec Data Inc. (c)	Quebecor inc. (d)	MT&T and Bruncor Inc. (e)	Other companies	Total
1986							
Balance — January 1, 1986	$ 884	—	—	—	$144	$ 83	$1,111
Cost of investments	$ 207	—	—	—	$ 12	$ 11	$ 230
Equity income	31	—	—	—	19	6	56
Income received	(60)	—	—	—	(14)	(1)	(75)
Other adjustments	(6)	—	—	—	—	(1)	(7)
Balance — December 31, 1986	$1,056	—	—	—	$161	$ 98	$1,315
1987							
Cost of investments	$ 69	$1,089	$199	—	$ 8	$ 13	$1,378
Equity income	41	27	11	—	21	10	110
Income received	(70)	—	(1)	—	(14)	(2)	(87)
Currency translation	(23)	131	—	—	—	—	108
Balance — December 31, 1987	$1,073	$1,247	$209	—	$176	$119	$2,824
1988							
Cost of investments	$ 134	$ 40	$ 20	$80	$ 9	$ 13	$ 296
Equity income (loss)	(37)	63	6	2	23	9	66
Income received	(50)	(26)	(1)	(1)	(15)	(1)	(94)
Currency translation	(17)	(163)	(2)	—	—	—	(182)
Sale of investments	—	—	—	—	—	(57)	(57)
Balance — December 31, 1988	$1,103	$1,161	$232	$81	$193	$ 83	$2,853

(a) At December 31, 1988, BCE owned 73.9 million common shares of TCPL, which represented 49.1% (1987 — 49.3%, 1986 — 48.5%) of the outstanding shares at that date. The cost of investment in 1986 included $150 million for Units of TCPL, purchased in July 1986, which consisted of common shares and common share purchase warrants (each of which entitles the holder to purchase, until July 13, 1989, one common share of TCPL at $19.25). BCE's equity income in TCPL is based on TCPL's net income applicable to common shares, less BCE's amortization of goodwill amortized over 20 years. In 1988, TCPL determined that the carrying value of certain of its assets should be reduced and recorded a provision of $72 million before and after income taxes. BCE's share of this provision reduced BCE's equity income for 1988 by $35 million.

On January 5, 1989, TCPL announced a corporate restructuring, conditional on a number of approvals, including a favourable vote cast by holders, other than BCE, of a majority of the common shares of TCPL at the annual meeting of TCPL, to be held on April 24, 1989. The principal result of the restructuring would be the distribution by TCPL to its shareholders, including BCE, of all the common shares of Encor Energy Corporation Inc., which would then hold the oil and gas assets now owned by TCPL and its subsidiaries. TCPL has also indicated that as part of the restructuring, Encor would issue preferred shares to BCE convertible into 33% of the common shares of Encor on a fully diluted basis, on the effective date of the restructuring, for a consideration of $226.5 million.

(b) At December 31, 1988, Northern Telecom Limited, a 52.8% owned subsidiary, owned ordinary shares of STC PLC (STC) which represented 27.5% (1987 — 27.5%) of the ordinary shares of STC. The investment in STC, a public company in the United Kingdom, was made in October 1987. Northern Telecom Limited's equity income in STC is after deducting amortization of goodwill over 40 years.

3. INVESTMENTS IN ASSOCIATED COMPANIES (continued)

(c) At December 31, 1988, the investment in Memotec Data Inc., the parent corporation of Teleglobe Canada Inc., represented an interest of approximately 31.6% (1987 — 29%) on a fully diluted basis. Equity income is after amortization of goodwill, amortized over 20 years.

(d) At December 31, 1988, BCE owned 5,000,000 common shares, Class B, of Quebecor, which represented an equity interest of 21.2%. These shares were acquired on October 3, 1988 as part of the consideration received for the sale by BCE of most of its printing businesses to Quebecor. Equity income is after amortization of goodwill, amortized over 20 years.

(e) At December 31, 1988, BCE owned 31.2% of the common shares of Bruncor Inc. and 8,207,238 common shares (33.1%) of Maritime Telegraph and Telephone Company, Limited (MT&T). A Nova Scotia statute provides that no more than 1,000 shares of MT&T may be voted by any one shareholder.

The results and financial position of TCPL are:

	(millions of dollars)		
Results:	1988	1987	1986
Revenues	$3,593	$3,355	$4,145
Income before provisions and loss on disposal of assets	$ 116	$ 160	$ 167
Loss on sale of U.S. oil and gas assets	$ (53)	—	—
Investment and asset provisions	$ (72)	—	$ (115)
Net income (loss)	$ (9)	$ 160	$ 52
Dividends on preferred shares	$ 37	$ 39	$ 43
Net income (loss) applicable to common shares	$ (46)	$ 121	$ 9

	(millions of dollars)	
Financial position:	December 31, 1988	December 31, 1987
Total assets	$6,022	$6,669
Total liabilities	$3,812	$4,547
Preferred shareholders' equity	$ 444	$ 444
Common shareholders' equity	$1,766	$1,678

The results and financial position of STC are:

	(millions of dollars)		
Results:	1988	1987	1986
Revenues	$5,207	$4,502	$3,942
Gross profit	$2,052	$1,827	$1,602
Income before extraordinary items	$ 320	$ 270	$ 177
Net income applicable to ordinary shares	$ 329	$ 295	$ 210

	(millions of dollars)	
Financial position:	December 31, 1988	December 31, 1987
Total assets	$3,494	$3,346
Total liabilities	$1,969	$1,776
Ordinary shareholders' equity	$1,525	$1,570

4. INCOME TAXES

A reconciliation of the statutory income tax rate to the effective income tax rate:

	1988	1987	1986
Statutory income tax rate in Canada	44.6%	48.7%	49.8%
(i) Allowance for funds used during construction, net of applicable depreciation adjustment	(.5)	(.2)	(.2)
(ii) Reduction of Canadian federal taxes applicable to manufacturing profits	(.8)	(.7)	(.9)
(iii) Equity in net income of associated companies	(1.7)	(2.4)	(1.3)
(iv) Tax incentives on research and development expenditures	(5.5)	(3.4)	(2.9)
(v) Difference between Canadian statutory rates and those applicable to foreign subsidiaries	(1.3)	(1.3)	(.7)
(vi) Other	2.9	(2.1)	(1.6)
Effective income tax rate	**37.7%**	**38.6%**	**42.2%**

Details of income taxes:

	(millions of dollars)		
	1988	1987	1986
Income before income taxes and minority interest			
Canadian	$1,603	$1,668	$1,703
Foreign	112	572	504
Total income before income taxes and minority interest	**$1,715**	**$2,240**	**$2,207**
Income taxes			
Canadian	$ 625	$ 689	$ 767
Foreign	21	177	165
Total income taxes	**$ 646**	**$ 866**	**$ 932**
Income taxes			
Current	$ 458	$ 729	$ 717
Deferred	188	137	215
Total income taxes	**$ 646**	**$ 866**	**$ 932**

Deferred income taxes result from deductions for tax purposes, principally in respect of plant, in excess of amounts currently charged to operations.

5. OTHER INCOME — Miscellaneous — net

	(millions of dollars) 1988	1987	1986
Interest on loans to Kinburn Corporation and Quebecor	$ 26	$ —	$ —
Other interest income	81	128	116
Gains recorded on disposition of, or reduction of ownership interest in, subsidiaries	127	10	—
Other	66	7	(27)
	300	145	89
Less: Provisions related to international operations, printing and publishing	97	—	—
	$203	**$145**	**$ 89**

6. FINANCE SUBSIDIARIES

The following is a summary of the combined financial data of the finance subsidiaries of Northern Telecom included in the consolidated financial statements:

	(millions of dollars) 1988	1987	1986
Interest income from			
Northern Telecom's subsidiaries	$ 45	$ 42	$ 42
Other*	91	81	77
Rental and other income	1	1	6
Interest charges*	(43)	(26)	(32)
Administrative expenses	(22)	(27)	(24)
Earnings from operations	72	71	69
Currency exchange losses	(4)	(1)	(1)
Provision for income taxes	(2)	(6)	(3)
Net earnings	**$ 66**	**$ 64**	**$ 65**

* Included in revenues and cost of revenues of Telecommunications equipment manufacturing, respectively.

	(millions of dollars) December 31, 1988	December 31, 1987
Total assets	$1,268	$1,309
Total liabilities	$ 637	$ 556
Shareholders' equity	$ 631	$ 753

7. OTHER INVESTMENTS — at cost

At December 31, 1988, Other investments included:

a) $319 million of notes of Kinburn Corporation maturing from April 7, 1994 to July 15, 1996. BCE is entitled to acquire, under certain terms and conditions, a 49% interest in Kinburn after April 7, 1993.

b) $73 million representing the long-term portion of notes of Quebecor receivable in annual instalments to October 1998.

8. EARNINGS PER COMMON SHARE

Earnings per common share are based on the weighted average number of shares outstanding. For the computation of the earnings per share, assuming full dilution, dividends on convertible preferred shares have been added back to income.

Earnings per common share for 1988 reflect the Northern Telecom provision of $242 million described in note 2, the TCPL investment and asset provision of $72 million described in note 3 and other provisions of $97 million described in note 5. BCE's share of these provisions, after deducting the related tax and minority interest, reduced consolidated net income by $190 million. Earnings per common share were reduced from $3.76 to $3.09.

9. COMMITMENTS AS LESSEE

At December 31, 1988, the future minimum lease payments under capital leases and operating leases with initial non-cancellable lease terms in excess of one year were:

	(millions of dollars)	
	Capital leases	Operating leases
1989	$ 23	$ 158
1990	18	118
1991	18	83
1992	18	54
1993	17	37
Thereafter	91	796
Total future minimum lease payments	185	$1,246
Less: Estimated executory costs	56	
Net minimum lease payments	129	
Less: Imputed interest	58	
Present value of net minimum lease payments	**$ 71**	

Rental expense applicable to all operating leases for the year 1988 was $275 million (1987 — $268 million, 1986 — $244 million).

10. INVENTORIES

	(millions of dollars)	
	December 31, 1988	December 31, 1987
Raw materials	$ 308	$ 302
Work-in-process	253	292
Finished goods	510	446
	$1,071	**$1,040**

11. PROPERTY, PLANT AND EQUIPMENT

	(millions of dollars)			
	December 31, 1988		December 31, 1987	
	Cost	Net of accumulated depreciation	Cost	Net of accumulated depreciation
Telecommunications operations				
Buildings, plant and equipment	$20,190	$13,115	$17,945	$11,815
Land	107	107	90	90
Plant under construction	618	618	423	423
Material and supplies	140	140	140	140
	21,055	**13,980**	**18,598**	**12,468**
Telecommunications equipment manufacturing				
Buildings, plant and equipment	3,321	1,727	3,020	1,606
Land	37	37	34	34
	3,358	**1,764**	**3,054**	**1,640**
Real estate operations				
Commercial properties	1,685	1,675	1,911	1,905
Land held for future development	340	340	456	456
Other properties	70	69	128	127
	2,095	**2,084**	**2,495**	**2,488**
Other operations				
Buildings, plant and equipment	199	116	483	265
Land	8	8	14	14
	207	**124**	**497**	**279**
	$26,715	**$17,952**	**$24,644**	**$16,875**
Capitalized leases included in the above amounts	$ 111	$ 71	$ 94	$ 56

12. DEBT DUE WITHIN ONE YEAR

	(millions of dollars)	
	December 31, 1988	December 31, 1987
Long-term debt — current portion	$ 716	$ 818
Notes payable	1,742	763
Bank advances	139	117
	$2,597	**$1,698**

13. LONG-TERM DEBT

(millions of dollars)

					Total outstanding December 31 1988	1987
BCE Inc.						
11⅝% Notes due 1990					$ 50	$ 50
10¼% Notes due 1990 (a)					100	100
10% Notes due 1992					300	300
9⅝% Notes due 1993					300	—
Total — BCE					***750***	***450***
Bell Canada						
Rate of interest	4.8 - 7⅞%	8 - 9⅞%	10 - 12.65%	13⅜ - 17.1%		
First mortgage bonds (b)						
Due 1988	$ —	$ —	$ —	$ —	—	117
1989	60	11	—	—	71	76
1990	30	53	—	—	83	83
1991	57	2	—	—	59	58
1992	45	67	—	—	112	112
1993	—	129	—	—	129	129
1994-2003	343	423	71	—	837	880
2004	—	15	—	—	15	17
	535	**700**	**71**	**—**	**1,306**	**1,472**
Debentures and notes (c)						
Due 1990	—	—	—	—	—	22
1991	—	—	50	—	50	245
1993	81	—	—	—	81	102
1994-2003	—	250	525	237	1,012	737
2004-2015	—	1,077	675	238	1,990	1,805
	81	**1,327**	**1,250**	**475**	**3,133**	**2,911**
Other					60	51
Total — Bell Canada					***4,499***	***4,434***
BCE Development Corporation (d)					***1,653***	***1,851***
Other subsidiaries					***1,262***	***1,088***
Sub-total — BCE consolidated					***8,164***	***7,823***
Less: Due within one year					716	818
Total — BCE consolidated					**$7,448**	**$7,005**

13. LONG-TERM DEBT (continued)

(a) Interest payments under BCE's 10¼% Notes due 1990 have been converted to a floating interest rate by way of an interest rate conversion agreement.

(b) The first mortgage bonds of Bell Canada, which include U.S. $468 million maturing from 1989 to 2004, are secured by a first mortgage and a floating charge on Bell Canada.

(c) Debentures and notes of Bell Canada include U.S. $600 million maturing from 2006 to 2010; 100 million Swiss francs maturing in 1993; and 195 million New Zealand dollar notes maturing in 1994 which are hedged as to principal amount and the related interest payments. In 1988, Bell Canada redeemed, prior to maturity, all of its U.S. $150 million 14.50% debentures, due 1991, and $22 million 12.75% Note, due 1990.

(d) At December 31, 1988, the consolidated debt of BCE Development Corporation included project debt amounting to $1,552 million, of which $978 million is non-recourse debt secured by individual properties or mortgages and agreements for sale.

At December 31, 1988, the estimated amounts of long-term debt payable by the corporation and its subsidiaries in the years 1989 to 1993 were $716, $423, $282, $646 and $776 million, respectively.

14. PREFERRED SHARES

Authorized

The articles of incorporation of BCE provide for an unlimited number of first preferred shares and second preferred shares. The articles authorize the Directors to issue such shares in one or more series and to fix the number of shares of each series, and the conditions attaching thereto, prior to their issue.

	(dollars in millions)			
	December 31, 1988		December 31, 1987	
Outstanding	Number of shares	Stated capital	Number of shares	Stated capital
First Preferred Shares (a)				
$1.96 shares, series G (b and c)	149,022	$ 4	204,431	$ 5
$2.05 shares, series H (b and d)	467,952	9	638,747	13
$2.70 shares, series I (e)	—	—	11,266,156	225
		$13		**$243**

(a) All the first preferred shares are convertible into common shares. The first preferred shareholders are entitled to cumulative annual dividends per share in the amount set out in the titles of each series and have one vote per share.

(b) Purchase funds:

Under the terms and conditions of the purchase funds, BCE shall make all reasonable efforts to purchase quarterly for cancellation 87,500 shares of the $1.96 preferred shares and 125,000 shares of the $2.05 preferred shares, in the open market, at a price not exceeding the stated capital per share plus costs of purchase. To the extent that BCE is unable to purchase such shares, the undertaking is cumulative to a maximum of eight quarters.

(c) The $1.96 preferred shares are currently redeemable, at BCE's option, at $25 per share. Each $1.96 preferred share is convertible into 1.2 common shares on or before May 1, 1990. At December 31, 1988, 6,850,978 of these shares had been converted (including 55,409 during 1988, 28,895 during 1987 and 37,843 during 1986).

(d) The $2.05 preferred shares are currently redeemable, at BCE's option, at $20 per share. Each $2.05 preferred share is convertible into one common share on or before April 15, 1992. At December 31, 1988, 9,532,048 of these shares had been converted (including 170,795 during 1988, 151,841 during 1987 and 239,718 during 1986).

(e) The $2.70 preferred shares were convertible on the basis of one preferred share for one common share. Shares not converted (48,438) on March 16, 1988 were redeemed on that date at $21.422 per share, including an accrued dividend of $0.222.

15. COMMON SHARES

Authorized: an unlimited number of common shares

	(dollars in millions)			
	December 31, 1988		December 31, 1987	
	Number of shares	Stated capital	Number of shares	Stated capital
Outstanding	289,545,724	$4,802	**273,868,475**	**$4,414**

Number of common shares issued during the last three years:

	1988	1987	1986
For cash			
Underwritten and privately placed issues	—	—	9,958,718
Shareholder Dividend Reinvestment and Stock Purchase Plan	4,145,581	7,598,316	7,234,548
Exercise of options	—	4,192	—
Conversion of preferred shares	11,455,000	697,711	1,930,618
In exchange for shares of a subsidiary	—	213,816	—
Optional Stock Dividend Program	76,668	78,744	105,198
	15,677,249	**8,592,779**	**19,229,082**

Stock options

Under the Long-Term Incentive (Stock Option) Program (1985) (the "Plan"), options may be granted to officers and other key employees of BCE and of its subsidiaries to purchase common shares of BCE at a subscription price of 100% of market value. The options are exercisable during a period not to exceed ten years. The right to exercise options generally accrues over a period of four years of continuous employment. Options are not generally exercisable during the first twelve months after the date of the grant. Simultaneously with the grant of an option, the employee may also be granted the right to a special compensation payment ("SCP") (payable, in accordance with the terms of the Plan, in cash or in shares of BCE). The amount of any SCP is equal to the increase in market value of the number of BCE shares covered by the SCP (which number may not exceed the number of shares covered by the option to which it is related) from the date of grant of the SCP to the date of exercise of the option to which the SCP is related.

At December 31, 1988, a total of 4,995,808 common shares had been authorized for issuance under the Plan. Shares covered by options granted with respect to any year may not exceed one-half of one per cent of the outstanding common shares of the corporation at the end of the immediately preceding year.

As of February 15, 1989, options covering 639,724 shares were outstanding: 98,394 granted with respect to the year 1984, at an exercise price of $39.375 per share; 124,156 granted with respect to the year 1985, at an exercise price of $37.6875 per share; 125,811 granted with respect to the year 1986, at an exercise price of $39.75 per share; 149,935 granted with respect to the year 1987, at an exercise price of $37.625 per share; and 141,428 granted with respect to the year 1988, at an exercise price of $36.8125 per share. Three-quarters of the options granted with respect to 1984 and 1985, one-half of those with respect to 1986 and one-quarter of those with respect to 1987 are now exercisable. In addition, SCPs have been granted to the same key employees covering the same number of shares as the options to which the SCPs are related.

Additional common shares reserved at December 31, 1988 — 6,133,061:

3,475,478 shares for issuance under the Shareholder Dividend Reinvestment and Stock Purchase Plan.

646,778 shares for issuance upon conversion of all convertible preferred shares.

2,010,805 shares for issuance under the Optional Stock Dividend Program.

16. FOREIGN EXCHANGE ADJUSTMENT

Following is an analysis of the foreign exchange adjustment included in the common shareholders' equity resulting from self-sustaining foreign operations:

	(millions of dollars)		
	1988	1987	1986
Balance at beginning of year	$ 68	$118	$137
Translation adjustments for the year	(229)	(50)	(19)
Balance at end of year	$(161)	$ 68	$118

17. UNUSED BANK LINES OF CREDIT

At December 31, 1988, unused bank lines of credit, generally available at the prime bank rate of interest, amounted to approximately $1,267 million.

18. CHANGES IN WORKING CAPITAL

	(millions of dollars)		
	1988	1987	1986
(Increase) decrease in current assets:			
Accounts receivable	$(265)	$ 33	$(378)
Inventories	(31)	6	174
Other current assets	(158)	(12)	(14)
Increase (decrease) in current liabilities:			
Accounts payable	234	257	243
Advance billing and payments	50	5	14
Dividends payable	27	5	17
Taxes accrued	(102)	(231)	(6)
Interest accrued	47	30	—
(Increase) decrease in working capital	$(198)	$ 93	$ 50

19. QUARTERLY FINANCIAL DATA

Summarized consolidated quarterly financial data (in millions of dollars, except per share amounts):

	Quarters — 1988			
	First	Second	Third	Fourth
Telecommunications operations				
Operating revenues	$1,795	$1,773	$1,696	$1,829
Net revenues	492	461	416	473
Telecommunications equipment manufacturing				
Revenues	1,536	1,715	1,507	1,840
Gross profit	621	707	626	741
Net revenues	105	147	93	(95)
Real estate operations				
Operating revenues	74	114	406	213
Net revenues	9	9	20	(6)
Other operations				
Operating revenues	215	211	200	129
Net revenues	8	16	9	7
Total revenues	**3,620**	**3,813**	**3,809**	**4,011**
Net income	253	286	225	123
Net income applicable to common shares	249	285	225	123
Earnings per common share	$.89	$1.00	$.78	$.42
Average common shares outstanding (thousands)	278,166	286,799	287,772	288,909

	Quarters — 1987			
	First	Second	Third	Fourth
Telecommunications operations				
Operating revenues	$1,626	$1,688	$1,701	$1,748
Net revenues	445	455	444	428
Telecommunications equipment manufacturing				
Revenues	1,540	1,683	1,542	1,706
Gross profit	555	669	648	778
Net revenues	112	148	134	239
Real estate operations				
Operating revenues	80	162	56	106
Net revenues	14	8	10	13
Other operations				
Operating revenues	259	264	267	302
Net revenues	35	41	36	37
Total revenues	**3,505**	**3,797**	**3,566**	**3,862**
Net income	248	254	245	340
Net income applicable to common shares	240	245	237	332
Earnings per common share	$.90	$.91	$.88	$1.22
Assuming full dilution	$.89	$.90	$.86	$1.19
Average common shares outstanding (thousands)	266,601	268,285	270,147	272,500

20. RECONCILIATION OF RESULTS REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) IN CANADA WITH UNITED STATES GAAP

(millions of dollars, except per share amounts)

	Quarters — 1988			
	First	Second	Third	Fourth
Net income, as reported	$253	$286	$225	$123
Adjustments				
Foreign exchange (a)	70	24	(13)	15
Equity in net income of associated companies (b)	10	27	32	32
Other adjustments	(1)	(2)	(2)	(1)
Net income — U.S. GAAP	**$332**	**$335**	**$242**	**$169**
Earnings per common share — U.S. GAAP	$1.18	$1.17	$.84	$.57

	Quarters — 1987			
	First	Second	Third	Fourth
Net income, as reported	$248	$254	$245	$ 340
Adjustments				
Foreign exchange (a)	77	(22)	27	—
Equity in net income of associated companies (b)	4	3	16	(139)
Net income — U.S. GAAP	**$329**	**$235**	**$288**	**$ 201**
Earnings per common share — U.S. GAAP	$1.20	$.84	$1.03	$.71

	Year ended December 31		
	1988	1987	1986
Net income, as reported	$ 887	$1,087	$1,024
Adjustments			
Foreign exchange (a)	96	82	38
Equity in net income of associated companies (b)	101	(116)	(195)
Other adjustments	(6)	—	—
Net income — U.S. GAAP	**$1,078**	**$1,053**	**$ 867**
Earnings per common share — U.S. GAAP	$3.76	$3.79	$3.22

(a) Differences arising from the methods of accounting, under Canadian GAAP, for unrealized foreign currency gains and losses on long-term debt and under United States Financial Accounting Standards Board's Statement No. 52 — Foreign Currency Translation.

(b) The most significant factors causing these differences between Canadian and U.S. GAAP are the treatment of unrealized foreign currency gains and losses, and the application of full cost accounting rules for oil and gas.

21. PENSIONS

BCE and most of its subsidiary companies have non-contributory defined benefit plans which provide for service pensions, based on length of service and rates of pay, for substantially all their employees. The policy is to fund pension costs, through contributions based on various actuarial cost methods, as permitted by pension regulatory bodies. Contributions reflect actuarial assumptions regarding salary projection and future service benefits. Plan assets are represented by common and preferred shares, bonds and debentures, cash and short-term investments, real estate and secured mortgages.

The present value of the accrued plan benefits and the net assets available to discharge these benefits at December 31 are:

	(millions of dollars)	
	1988	1987
Actuarial present value of plan benefits		
Accumulated plan benefits		
Vested	$3,741	$3,602
Non-vested	859	769
	4,600	4,371
Effect of salary projection	1,649	1,611
Accrued plan benefits	**$6,249**	**$5,982**
Net assets available for plan benefits — at market value	**$7,006**	**$6,496**

The provision for pension cost was $140 million for the year ended December 31, 1988 (1987 — $215 million, 1986 — $279 million). The components of this provision for the years ended December 31 are:

	(millions of dollars)	
	1988	1987
Service cost component	$ 212	$ 226
Interest on projected plan benefits	479	456
Return on plan assets	(698)	(260)
Other — net	147	(207)
	$ 140	**$ 215**

Cost calculations were based on a value of assets adjusted to market over periods ranging from 3 to 5 years, which amounted to $6,735 million at December 31, 1988 (1987 — $6,254 million). The weighted average discount rate used in determining the accumulated and accrued plan benefits, and the weighted average assumed long-term rate of return on plan assets, was 8% for 1988 (1987 — 7.7%).

The cumulative difference between amounts expensed and the funding contributions is reflected on the consolidated balance sheet and is derived as follows:

	(millions of dollars)	
	1988	1987
Excess of plan assets at market value over accrued plan benefits	$ 757	$ 514
Unrecognized net experience gains	(677)	(413)
Unrecognized net assets existing at January 1, 1987 being amortized over a weighted average of 17 years	(132)	(163)
Other unrecognized net plan benefits and amendments	10	10
Accrued liability included in the consolidated balance sheet	$ 42	$ 52

In addition to pension benefits, BCE and its subsidiary companies provide certain health care and life insurance benefits for retired employees. The costs of such benefits, excluding life insurance, are paid out of current income, as benefits are received, and in 1988 amounted to $16 million (1987 — $13 million, 1986 — $12 million). Life insurance for retired employees is largely funded during their working lives.

22. INDUSTRY SEGMENTS INFORMATION

BCE and its subsidiaries operate principally in three reportable business segments:

1) Telecommunications operations, which includes the provision of voice, data, image, radio and television transmission, public exchange and private line teletypewriter and other telecommunications services, including directory operations;

2) Telecommunications equipment manufacturing, which involves the design, development, manufacture and marketing of central office switching equipment, business communications systems and terminals, transmission equipment, cable and outside plant products, and other telecommunications products and services; and

3) Real estate operations, which involves the acquisition of land or other properties for resale or future development; and the development, for retention as income producing or for sale, of commercial and residential properties.

Other operations include international consulting services; printing, packaging and publishing; and other fields. In April 1988, the packaging operations were sold.

Details of revenues and supplementary data by business segment and geographic area, are set out in the following tables:

22. INDUSTRY SEGMENTS INFORMATION (continued)

The following table sets forth revenues, net revenues and supplementary data for each of the corporation's business segments for the years ended December 31:

By business segment	(millions of dollars) 1988	1987	1986
Revenues			
Telecommunications operations	$ 7,093	$ 6,763	$ 6,541
Telecommunications equipment manufacturing	6,598(a)	6,471(a)	6,114(a)
Intersegment revenues	59	51	47
	6,657	6,522	6,161
Real estate operations	807	404	292
Other operations	755	1,092	1,063
Intersegment revenues	74	107	86
	829	1,199	1,149
Elimination of intersegment revenues	(133)	(158)	(133)
Total revenues	$15,253	$14,730	$14,010
Total net revenues			
Telecommunications operations	$ 1,842	$ 1,763	$ 1,839
Telecommunications equipment manufacturing	243	629	599
Real estate operations	32	45	10
Other operations	47	162	197
	$ 2,164	$ 2,599	$ 2,645
Identifiable assets			
Telecommunications operations	$15,815	$13,830	$12,704
Telecommunications equipment manufacturing	5,428	4,765	4,755
Real estate operations	2,627	3,025	2,866
Other operations	520	1,094	1,078
Eliminations	(287)	(304)	(324)
	24,103	22,410	21,079
Investments	3,249	2,824	1,315
General corporate assets	717(b)	970(b)	1,316(b)
Total assets as at December 31	$28,069	$26,204	$23,710
Depreciation			
Telecommunications operations	$ 1,201	$ 1,105	$ 1,027
Telecommunications equipment manufacturing	363	351	346
Real estate operations	5	3	3
Other operations and general corporate	32	71	38
Total depreciation	$ 1,601	$ 1,530	$ 1,414
Gross capital expenditures			
Telecommunications operations	$ 2,407	$ 2,090	$ 1,728
Telecommunications equipment manufacturing	618	554	423
Real estate operations	485	523	543
Other operations and general corporate	49	142	76
Total capital expenditures	$ 3,559	$ 3,309	$ 2,770

22. INDUSTRY SEGMENTS INFORMATION (continued)

The following table sets forth information by geographic area for the years ended December 31:

	(millions of dollars)		
By geographic area (c)	1988	1987	1986
Total revenues			
Canada			
Customers	$ 9,898	$ 9,485	$ 8,768
Transfers between geographic areas	702	683	636
	10,600	**10,168**	**9,404**
U.S.A.			
Customers	4,964	4,572	4,528
Transfers between geographic areas	154	141	150
	5,118	**4,713**	**4,678**
Other			
Customers	391	673	714
Transfers between geographic areas	59	56	46
	450	**729**	**760**
Elimination of transfers between geographic areas	**(915)**	**(880)**	**(832)**
Total revenues	**$15,253**	**$14,730**	**$14,010**
Total net revenues before research and development expenses			
Canada	$ 2,775	$ 2,633	$ 2,551
U.S.A.	908	1,097	998
Other	27	100	168
	3,710	3,830	3,717
Research and development expenses	(998)	(925)	(788)
General corporate expenses	(306)	(306)	(284)
Restructuring costs	(242)	—	—
Other income (expense)	(449)	(359)	(438)
Income before income taxes and minority interest	**$ 1,715**	**$ 2,240**	**$ 2,207**
Identifiable assets			
Canada	$18,581	$16,730	$15,295
U.S.A.	5,615	5,714	5,583
Other	617	692	946
Eliminations	(710)	(726)	(745)
	24,103	22,410	21,079
Investments	3,249	2,824	1,315
General corporate assets	717(b)	970(b)	1,316(b)
Total assets as at December 31	**$28,069**	**$26,204**	**$23,710**

(a) Telecommunications equipment manufacturing includes revenues of $1,597 million (1987 — $1,537 million, 1986 — $1,257 million) from Bell Canada and other telephone subsidiary and associated companies of BCE. These revenues are not eliminated on consolidation. Telecommunications equipment manufacturing revenues of Northern Telecom Limited from Bell Canada are at sale prices and terms as low as those offered to the most favoured customers of Northern Telecom Limited for like materials and services under comparable conditions.

(b) General corporate assets are principally cash, temporary cash investments and deferred unrealized foreign currency losses.

(c) The point of origin (the location of the selling organization) of revenues and the location of the assets determine the geographic area.

23. REGULATORY DECISION

On October 14, 1986, the Canadian Radio-television and Telecommunications Commission ("CRTC") rendered its decision on Bell Canada's revenue requirements for 1987, 1986 and 1985. As part of this decision, the CRTC established rates of return on common equity to be applied retroactively for 1986 and 1985. The CRTC also directed that certain items which had been expensed in the periods since January 1, 1985, should be capitalized. Taking into account these determinations, the CRTC concluded that Bell Canada had earned excess revenues of $143 million and $63 million for 1986 and 1985, respectively, and directed Bell Canada to provide most of its subscribers with a one-time credit totalling $206 million by January 31, 1987. This part of the CRTC decision was appealed by Bell Canada to the Federal Court of Appeal.

On July 10, 1987, the Federal Court of Appeal allowed Bell Canada's appeal and decided that the CRTC had exceeded its jurisdiction in directing Bell Canada to give a one-time credit of $206 million to most of its subscribers. The CRTC appealed to the Supreme Court of Canada the Federal Court of Appeal's decision and a hearing is scheduled for February 21, 1989. Management, supported by the opinion of legal counsel, believes that the Federal Court of Appeal's decision is likely to be sustained.

The effect of the CRTC decision relating to 1985 and 1986, as set out in this note, which has not been reflected in the financial statements, would be to reduce net income by approximately $71 million after taking into account the tax effects, of which $42 million relates to 1986 and $29 million to 1985.

24. SUBSEQUENT EVENT

On January 27, 1989, BCE and BCE Development Corporation (BCED) announced that they are discussing with Olympia & York Developments Limited (Olympia & York) a proposal which, if agreed and implemented, would result in Olympia & York becoming a 49.9% shareholder in a BCE subsidiary. The transactions would involve the issuance by BCED of 60 million common shares to the BCE subsidiary for $225 million from the proceeds of shares issued by the BCE subsidiary to Olympia & York; the transfer by BCE, out of the 111.2 million BCED common shares owned by BCE, of 60 million BCED common shares to the BCE subsidiary and the sale by BCE of a minimum of 19 million shares (maximum of 24 million shares) to Olympia & York. After giving effect to these transactions, the BCE subsidiary would own approximately 53% of BCED.

Management's Responsibility for Financial Statements

The accompanying consolidated financial statements of BCE Inc. and its subsidiaries, and all information in this annual report, are the responsibility of management and have been approved by the board of directors.

The financial statements have been prepared by management in conformity with Canadian generally accepted accounting principles. The financial statements include some amounts that are based on best estimates and judgments. Financial information used elsewhere in the annual report is consistent with that in the financial statements.

The management of the corporation and its subsidiaries, in furtherance of the integrity and objectivity of data in the financial statements, has developed and maintains a system of internal accounting controls and supports an extensive program of internal audits. Management believes the internal accounting controls provide reasonable assurance that financial records are reliable and form a proper basis for preparation of financial statements and that assets are properly accounted for and safeguarded. The internal accounting control process includes management's communication to employees of policies which govern ethical business conduct.

The board of directors carries out its responsibility for the financial statements in this annual report principally through its audit committee, consisting solely of outside directors. The audit committee reviews the corporation's annual consolidated financial statements and recommends their approval by the board of directors. The shareholders' auditors have full access to the audit committee, with and without management being present.

These financial statements have been examined by the shareholders' auditors, Touche Ross & Co., chartered accountants, and their report is presented below.

Donald R. Newman
Vice-President and Comptroller

Auditors' Report

The Shareholders, BCE Inc.

We have examined the consolidated balance sheets of BCE Inc. and subsidiaries as at December 31, 1988 and 1987 and the consolidated statements of income, retained earnings and changes in financial position for each of the three years in the period ended December 31, 1988. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the corporation as at December 31, 1988 and 1987 and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1988 in accordance with Canadian generally accepted accounting principles applied on a consistent basis.

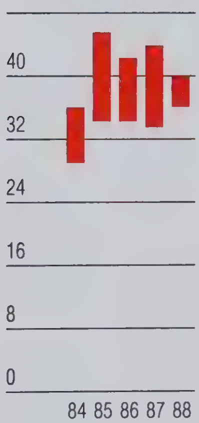
Touche Ross & Co.
Chartered Accountants

Montreal, Quebec
February 15, 1989

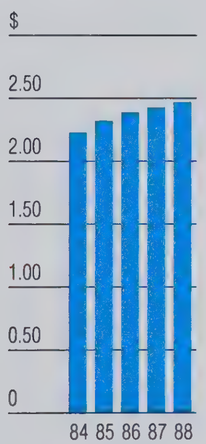
Price Ranges of Common Shares

	1988		1987	
	High	Low	High	Low
Montreal and Toronto				
1st quarter	$39⅝	$36⅛	$43⅝	$36⅞
2nd quarter	39½	36¾	43⅛	40⅜
3rd quarter	37¾	36¼	43	38⅛
4th quarter	39¼	36½	39½	33½
NYSE consolidated tape (U.S. $)				
1st quarter	$31⅝	$28¼	$33⅜	$26⅞
2nd quarter	31⅞	29⅝	33	29⅞
3rd quarter	30⅞	29½	32⅝	29
4th quarter	32⅝	29⅞	30⅛	23½

Market prices per common share
(Canadian dollars)



Dividend growth



Dividends

Quarterly dividends of $0.61 per common share were paid in 1988 ($0.60 in 1987).

On November 23, 1988, an increase in the dividend on common shares was declared. The final 1988 quarterly dividend, which was paid on January 15, 1989, was raised to $0.62. The indicated annual rate is now $2.48, an increase of $0.04 over the previous annual rate.

Number of shareholders

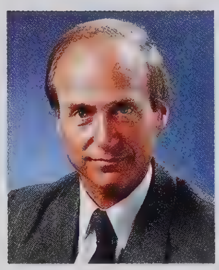
At December 31, 1988, there were 319,202 registered holders of common shares.

Selected Financial and Other Data (Consolidated)

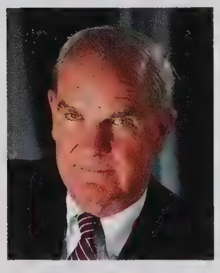
	1988	1987	1986	1985
Income statement data (millions of dollars)				
Revenues				
Local service	$ 2,631	$ 2,489	$ 2,380	$ 2,354
Long distance service	3,506	3,408	3,355	3,040
Directory advertising and miscellaneous — net	956	866	806	638
Total telecommunications operations	7,093	6,763	6,541	6,032
Telecommunications equipment manufacturing	6,598	6,471	6,114	5,829
Real estate operations	807	404	292	408
Other operations	755	1,092	1,063	1,051
Total revenues	**15,253**	**14,730**	**14,010**	**13,320**
Income before extraordinary items	887	1,087	1,024	1,051
Net income	887	1,087	1,024	1,051
Balance sheet data (millions of dollars)				
Total assets	$28,069	$26,204	$23,710	$20,620
Common equity	9,356	9,024	8,366	7,309
Preferred shares (redeemable)	13	243	257	313
Minority interest	2,772	2,744	2,339	1,893
Long-term debt (including current portion)	8,164	7,823	6,864	5,922
Gross capital expenditures	3,559	3,309	2,770	2,429
Common share data				
Earnings per common share				
before extraordinary items	$ 3.09	$ 3.91	$ 3.83	$ 4.23
after extraordinary items	$ 3.09	$ 3.91	$ 3.83	$ 4.23
Assuming full dilution				
before extraordinary items	$ 3.09	$ 3.85	$ 3.77	$ 4.13
after extraordinary items	$ 3.09	$ 3.85	$ 3.77	$ 4.13
Dividends declared per common share	$ 2.45	$ 2.41	$ 2.37	$ 2.30
Equity per common share	$32.31	$32.95	$31.54	$29.71
Return on common equity	9.5%	12.3%	12.5%	15.0%
Other data				
Telephones in service (thousands)	9,647	9,525	9,543	9,618
Network access services (thousands)	8,472	8,117	7,746	7,424
Long distance messages (millions)	1,455	1,254	1,083	978
Number of employees (thousands)	116	117	110	108

1984	1983	1982	1981	1980	1979	1978
$ 2,295	$ 2,224	$ 2,136	$ 1,918	$ 1,626	$ 1,450	$ 1,313
2,739	2,481	2,277	1,972	1,625	1,414	1,223
507	371	278	250	205	175	153
5,541	5,076	4,691	4,140	3,456	3,039	2,689
4,359	3,276	3,005	2,570	2,034	1,866	1,470
1	—	—	—	—	—	—
715	550	734	719	562	362	215
10,616	**8,902**	**8,430**	**7,429**	**6,052**	**5,267**	**4,374**
940	745	612	547	363	433	366
940	830	615	556	273	433	391
$17,461	$14,772	$13,211	$12,201	$11,243	$10,124	$ 9,218
6,317	5,307	4,257	3,859	3,471	3,345	2,847
378	423	522	362	454	329	405
1,349	800	528	447	398	470	301
4,609	4,282	4,567	4,449	4,168	3,553	3,537
1,961	1,604	1,765	1,714	1,598	1,351	1,184
$ 4.03	$ 3.46	$ 3.05	$ 2.95	$ 1.99	$ 2.63	$ 2.45
$ 4.03	$ 3.88	$ 3.07	$ 3.00	$ 1.44	$ 2.63	$ 2.63
$ 3.92	$ 3.37	$ 2.97	$ 2.86	$ 1.97	$ 2.55	$ 2.33
$ 3.92	$ 3.76	$ 2.99	$ 2.91	$ 1.44	$ 2.55	$ 2.49
$2.205	$2.105	$ 1.99	$ 1.84	$ 1.68	$ 1.55	$ 1.43
$27.06	$24.68	$22.68	$21.74	$20.75	$21.11	$20.17
15.7%	14.7%	13.7%	14.0%	9.5%	12.7%	12.6%
9,769	9,780	9,888	10,063	9,988	9,642	9,328
7,145	6,887	6,722	6,650	6,467	6,227	6,053
895	833	791	793	741	687	643
108	101	98	102	97	94	90

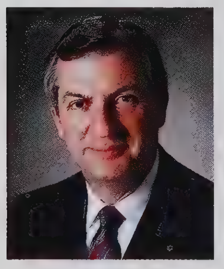
Board of Directors



Peter A. Allen
Toronto, Ontario
Chairman, President and
Chief Executive Officer
LAC Minerals Ltd.
(mine exploration, development and production company, specializing in gold and other hardrock minerals)



Ralph M. Barford
Toronto, Ontario
President
Valleydene Corporation Limited
(private investment company)



Laurent Beaudoin, C.C., F.C.A.
Westmount, Quebec
Chairman
and Chief Executive Officer
Bombardier Inc.
(manufacturers of recreational, industrial, aerospace and transportation products)

Marcel Bélanger, O.C., F.C.A.
Quebec, Quebec
President
Gagnon et Bélanger Inc.
(management consultants)

John S. Brant
London, Ontario
President
and Chief Executive Officer
Emco Limited
(manufacturers and distributors of a wide variety of products for the new construction, renovation, petroleum and specialized equipment industries)

Warren Chippindale, F.C.A.
Westmount, Quebec
(company director)

J.V. Raymond Cyr, O.C.
Montreal, Quebec
President
and Chief Executive Officer
BCE Inc.
and Chairman of the Board
Bell Canada

C. William Daniel, O.C.
North York, Ontario
(company director/consultant)

A. Jean de Grandpré, C.C., Q.C.
Montreal, Quebec
Chairman of the Board
BCE Inc.

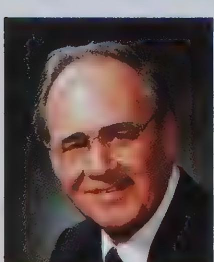
Edmund B. Fitzgerald
Nashville, Tennessee, U.S.A.
Chairman of the Board
and Chief Executive Officer
Northern Telecom Limited

Rowland C. Frazee, O.C.
Mount Royal, Quebec
(company director)

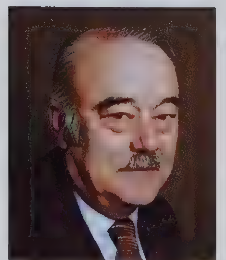
J. Peter Gordon, O.C.
Mississauga, Ontario
(company director)

Gerald J. Maier
Calgary, Alberta
President
and Chief Executive Officer
TransCanada PipeLines
Limited

Helen L. Margison
Toronto, Ontario
(company director)



E. Neil McKelvey, O.C., Q.C.
Saint John, New Brunswick
Partner
McKelvey, Macaulay,
Machum
(law firm)

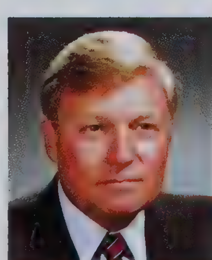


Lucien G. Rolland, O.C.
Montreal, Quebec
Chairman of the Board
and Chief Executive Officer
Rolland inc.
(manufacturer and distributor
of fine papers)

Alastair H. Ross
Calgary, Alberta
Chairman
and Chief Executive Officer
Pacific Enterprises
Oil Company (Canada)
(oil and gas exploration
company)

C. Richard Sharpe
Mississauga, Ontario
Chairman of the Board
Sears Canada Inc.
(retail department stores
and catalogue sales)

Louise B. Vaillancourt, C.M.
Outremont, Quebec
(company director)



Lynton R. Wilson
Oakville, Ontario
Chairman of the Board
Redpath Industries Limited
(sugar refiners and manufacturers
of automotive, industrial
and construction products)

Committees of the Board

Audit committee
M. Bélanger — chairman
R.M. Barford
L. Beaudoin
W. Chippindale
E.N. McKelvey
A.H. Ross
L.B. Vaillancourt

Investment committee
A.J. de Grandpré — chairman
M. Bélanger
J.S. Brant
J.V.R. Cyr
C.W. Daniel
H.L. Margison
A.H. Ross
L.R. Wilson

Pension fund policy committee
J.P. Gordon — chairman
P.A. Allen
J.V.R. Cyr
E.B. Fitzgerald
E.N. McKelvey

Management resources and compensation committee
J.P. Gordon — chairman
R.C. Frazee
L.G. Rolland
C.R. Sharpe
L.R. Wilson

Committees of the Board of Directors

BCE has established permanent committees of the board of directors to permit continuing review of the areas of auditing, management resources and compensation, pension fund policy, and investment.

The *Audit Committee* reviews the corporation's financial statements and related data prior to submission to the full board. It advises the board on the adequacy, accuracy and timeliness of financial reports; on the efficacy of internal accounting, auditing and control procedures; and ensures that BCE continues to meet high standards of disclosure, fully compliant with all external requirements and reporting standards.

The audit committee also advises the board on the selection of the shareholders' auditors, and meets, both separately and together, with the auditors and management. BCE's audit committee consists entirely of outside directors; *i.e.* directors who are not officers of BCE or its subsidiaries. The audit committee met seven times during 1988.

The *Management Resources and Compensation Committee* recommends candidates for appointment or election to the board, ensures that qualified personnel will be available for appointment to officer and other management ranks, and assesses the performance of officers. The committee also conducts an annual review and submits recommendations to the board with respect to remuneration for directors and officers. All members of the committee are outside directors. The management resources and compensation committee met five times during 1988.

The *Pension Fund Policy Committee* advises the board on the funding of pension liabilities and the investment of pension fund assets of BCE and certain of its subsidiary and associated companies. It also reviews and reports to the board on the activities of the pension fund trustee as directed by management. The pension fund policy committee met twice during 1988.

The *Investment Committee* is vested with the full powers and authority of the board in cases when investment decisions are required urgently. Its decisions are reported to the full board within 24 hours. The investment committee met three times during 1988.

Shareholder Statistics

	At December 31				
	1988	1987	1986	1985	1984
Common shareholders by holdings					
1-99 shares	142,330	138,637	144,805	139,093	130,759
100-999 shares	149,608	153,438	166,161	165,984	161,681
1,000 shares and over	27,264	26,600	27,562	27,363	28,797
Total	319,202	318,675	338,528	332,440	321,237
Average number of common shares per registered holder	907	859	783	740	726
Total number of shareholders (including preferred)	320,470	327,226	348,441	344,541	335,412
Common shareholders by location					
Canada	312,320	311,847	331,623	325,877	314,804
Other	6,882	6,828	6,905	6,563	6,433
Total	319,202	318,675	338,528	332,440	321,237
Common shares by location					
Canada*	266,385,621	251,986,759	250,695,266	231,332,364	220,691,475
Other	23,160,103	21,881,716	14,580,430	14,714,250	12,790,908
Total	289,545,724	273,868,475	265,275,696	246,046,614	233,482,383

* Held by shareholders registered as residents of Canada

Corporate Officers

A. Jean de Grandpré
Chairman of the Board

J.V. Raymond Cyr
President and
Chief Executive Officer

Jean C. Monty
Executive Vice-President
Corporate

J. Stuart Spalding
Executive Vice-President
Finance

Graham E. Bagnall
Vice-President and
Treasurer

Josef J. Fridman
Vice-President and
General Counsel

Guy Houle
Vice-President and
Corporate Secretary

Donald R. Newman
Vice-President and
Comptroller

G.E. Bagnall J.S. Spalding D.R. Newman

J.C. Monty J.J. Fridman G. Houle

Departmental Executive

Ivan Berggrun
Assistant Comptroller
Research, Budget and
Results

Stephen J. Brady
Assistant Treasurer
Shareholder Services

Shaul I. Ezer
Assistant General Counsel
(Ontario)

Simon Jegher
Assistant Treasurer
Financing

David H. Orr
Assistant Vice-President
Corporate Relations

Marc J. Ryan
Assistant General Counsel

Michel E. Saint-Cyr
Assistant Vice-President
Finance (Real Estate)

Nichol A. Smith
Assistant Vice-President
Taxation

Reynold Tremblay
Assistant Comptroller
External Reporting

Shareholder Services and Information

Dividend Reinvestment and Stock Purchase Plan (DRP)

Shareholders wishing to acquire additional common shares of BCE Inc. can take advantage of the Shareholder Dividend Reinvestment and Stock Purchase Plan. This plan provides a convenient method for eligible holders of BCE common shares to reinvest all or a portion of their common share cash dividends in new common shares of BCE.

Participating shareholders pay no brokerage commission or service charge of any kind and all administrative costs of the plan are borne by the corporation.

Payment of dividends — direct deposit

BCE Inc. shareholders resident in Canada may have their dividend cheques deposited directly to their personal account at most banks or other financial institutions. This service permits shareholders to arrange for the timely deposit of their dividend payments in a manner that is reliable, secure and convenient.

U.S. resident shareholders — choice of dollar denominated dividend payments

U.S. holders of common shares, who are resident in the United States and have not elected to have their cash dividends reinvested in DRP, normally have their dividends converted to and paid in U.S. funds, unless instructions to pay in Canadian funds are received.

Multiple mailings

In some cases, where an individual holds more than one class of securities, or when holdings are registered differently, the shareholder may receive more than one copy of publications such as interim and annual reports. In such cases, we would appreciate being advised.

Canadian Taxes on Foreign Investors

Income taxes

Dividends (including stock dividends) on BCE shares, paid or credited to non-residents of Canada, are subject to withholding tax at 25 per cent, unless reduced by treaty.

Under the United States-Canada Income Tax Convention, a withholding tax of 15 per cent applies to BCE dividends (including stock dividends) paid or credited to individuals residing in the United States, or corporations organized under the laws of the United States, which do not have a "permanent establishment" or a "fixed base" in Canada.

Gains on disposals of BCE shares by a non-resident of Canada are generally not subject to Canadian income tax, unless realized by the holder in connection with a business (including an "adventure in the nature of trade") carried on in Canada.

Estate and succession duties

There are no estate taxes or succession duties imposed by Canada or by any province of Canada.

Shareholder Inquiries

For further information concerning the plans available to shareholders and how to participate, and to eliminate multiple mailings and discontinue interim reports, please write to:

Assistant Treasurer, Shareholder Services
BCE Inc.
P.O. Box 3500
Tour de la Bourse
Montreal, Quebec H4Z 1L3

Sur demande, le vice-président et secrétaire de la Société vous fera volontiers parvenir un exemplaire français du rapport annuel.

Printed by
The Case-Hoyt Corporation
Rochester, New York
a BCE company

Investor Information

Transfer Offices for Stock

Canada:

BCE Shareholder Services

800 Square Victoria
Montreal;

483 Bay St.
Toronto

The Royal Trust Company

St. John's, Nfld.; Halifax;
Charlottetown;
Saint John, N. B.; Winnipeg;
Regina; Calgary; Edmonton;
Vancouver

Outside Canada — Common shares only:

American Transtech, Inc.

New York, N. Y.

Royal Trust Bank

London, England

Registrar for Stock

Canada:

BCE Shareholder Services

Montreal; Toronto

Montreal Trust Company

St. John's, Nfld.; Halifax;
Charlottetown;
Saint John, N. B.; Winnipeg;
Regina; Calgary; Edmonton;
Vancouver

Outside Canada — Common shares only:

American Transtech, Inc.

New York, N. Y.

The Royal Bank of Scotland plc.

London, England

Listing of Stock

Canada:

The Montreal Exchange
The Toronto Stock Exchange
Vancouver Stock Exchange

Outside Canada — Common shares only:

Belgium
Brussels Stock Exchange

France
Paris Stock Exchange

Germany
Frankfurt am Main,
Düsseldorf Stock
Exchanges

Japan
Tokyo Stock Exchange

Switzerland
Zürich, Basel, Geneva
Stock Exchanges

The Netherlands
Amsterdam Stock
Exchange

United Kingdom
The Stock Exchange

United States
New York Stock Exchange

Form 10-K
The Annual Report on Form 10-K is available, from the date of its filing with the Securities and Exchange Commission in the United States, by writing to:

The Vice-President and
Corporate Secretary
BCE Inc.
2000 McGill College Avenue
Suite 2100
Montreal, Quebec H3A 3H7